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TESTIMONY AND EXHIBITS ON SUGAR LEGISLATION

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before

The House Agriculture Committee

Considering H.R. 4521

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TESTIMONY OF LAWRENCE MYERS, DIRECTOR, SUGAR BRANCH, PRODUCTION AND
MARKETING ADMINISTRATION, U. S. DEPARTMENT OF AGRICULTURE,
BEFORE THE HOUSE AGRICULTURE COMMITTEE, JUNE 27, 1951,
ON H.R. 4521

The Purpose of United States Sugar Legislation

The Agriculture Committee of the House of Representatives now has before it H.R. 4521, a bill to extend and amend the Sugar Act of 1948. A companion bill, S. 1694, has been introduced in the Senate.

In major outline, H.R. 4521 extends the Sugar Act from December 31, 1952, to December 31, 1956; it increases Puerto Rico's quota for marketing on the mainland from 910,000 tons to 1,080,000 tons; it increases from 6,000 to 12,000 tons the quota for the Virgin Islands and it increases the participation of the full duty countries supplying our market. The bill also contains a few amendments affecting quota administration.

Although the bill before the Committee can be summarized in this brief fashion, it seems appropriate and desirable at this time to review the conditions that made it necessary for this country to undertake special sugar legislation and to observe the benefits that have come from that legislation. Those facts should demonstrate the important national purpose being served by our sugar legislation and the need for its continuation.

Historically, the sugar industry of the United States has received the benefits of a tariff for the past 162 years, the original sugar tariff having been enacted on July 4, 1789. Prior to the adoption of the first of the sugar acts in 1934, the rates on raw sugar under this tariff ranged generally from 1 cent to over 3 cents per pound. From 1816 to 1832 a special rate of 12 cents per pound was in effect on "loaf" sugar. In one period, from September 1, 1891 to July 1, 1895, raw sugar was duty-free, but a compensating bounty of 2 cents per pound was paid on home production. Thus, the present rate of 1/2 cent per pound on Cuban raw sugar approximates the lowest tariff rate in our history.

Some refineries already existed in this country and therefore benefitted from the original tariff of 1789, but the early sugar tariffs were primarily for revenue purposes. They accounted for an important portion of total federal receipts, but afforded little protection to producers since the domestic sugar producing industry cannot be said to have started until after Louisiana became a part of the United States in 1803. Fragmentary statistics show Louisiana sugar production at only about 5,000 tons as late as 1815, and we had no other domestic areas producing sugar until much later. However, even though the original tariffs on sugar were primarily revenue measures they did constitute an important part of the existing economic framework within which domestic production had its development.

Notwithstanding its importance to the domestic sugar industry, the extent of the protection afforded has been small in comparison to the assistance given by many foreign countries to their sugar industries. High tariffs, import controls, exchange controls, internal taxes, and monopolies keep sugar prices in many foreign countries at such a high level that per capita consumption is only a small fraction of that in the United States. In the period immediately preceding World War II various forms of protection and preferences covered approximately 90 percent of the world's production and consumption of sugar. The so-called world free market, that is, the quantity of sugar exported from the country of production to a country in which it had no protection or preference, covered only about 10 percent of the world's production. As a result, it was difficult to get even small surpluses into consumption in periods of low demand; and in periods of rising demand, all countries competed for the small quantity in the free world market. The result was violent swings in prices. When these conditions are considered in light of the low wages paid in many countries, especially the tropical areas; and the direct and indirect export subsidies given by other countries, it is not surprising that the sugar producing industry of the United States felt that it required continued protection.

Under the United States Tariff Act of 1930 rates of 2 cents per pound were established on raw sugar from Cuba and 2-1/2 cents per pound on raw sugar from other foreign countries. These rates were intended to give adequate protection to the domestic sugar industry and to safeguard it against depression. Nevertheless, the domestic sugar industry went further and further into the depths of depression. Tremendous inventories of sugar accumulated. Sugar beet growers and sugarcane growers lost their farms. Wages in the cane and beet fields were distressingly low.

The net effect of a higher tariff was to bring greater overproduction in the domestic areas and ever increasing depression in the world market. Imports from Cuba were cut in half and the Cuban price fell below one cent per pound. Economic ruin and political revolution were the consequences. By 1933 it had become evident that the tariff was no longer adequate to insure either a healthy domestic industry or a dependable source of foreign supplies. By that time it had also become evident that the destruction of our import trade was tearing down our export trade. This was injuring cotton growers, grain growers, and the producers of our other export commodities. Therefore, the various branches of the sugar industry undertook to work out a satisfactory program under the marketing agreement provisions of the Agricultural Adjustment Act of 1933. When that attempt failed, the Jones-Costigan Sugar Act was developed and enacted in 1934 as an amendment to the Agricultural Adjustment Act of 1933. The present legislation, the Sugar Act of 1948, contains the general features incorporated in the Jones-Costigan Act.

Major Features of the Sugar Act of 1948 and the Proposed Extension.

The Sugar Act is designed to maintain a healthy and competitive domestic sugar industry of limited size and to restore and improve our import trade. Provisions are included in the legislation to insure that a fair share of the consumer's dollar goes to the grower of sugar-cane and sugar beets and to the laborers working in the beet and cane fields. As stated in the Act, the objective is to achieve prices "which will **not be excessive to consumers and which will fairly and equitably maintain and protect the domestic sugar industry.**"

The principal means provided in the Act (and in the proposed extension) to achieve its objectives are the following:

(1) Determination of Requirements: Each December the Secretary of Agriculture is required to make a determination of the quantity of sugar that will be needed by consumers during the following calendar year. The Act requires that a number of factors be taken into consideration in order that the supply will be adequate but not excessive. These determinations can, of course, be revised from time to time to meet changing conditions.

(2) Quotas: Fixed quotas are provided for the domestic areas and the Republic of the Philippines. Under the Sugar Act of 1948, 98.64 percent of our additional requirements are provided by Cuba, and 1.36 percent by full-duty countries. Under the proposed extension, 96 percent would be supplied by Cuba and 4 percent by full-duty countries. The Act provides for the determination of a deficit for any domestic or foreign producing area that will **fail** to fill its quota, and for the reassignment of such quantities. The proposed amendments will revise somewhat the administration of these provisions.

(3) Excise Tax: The Act contains an amendment to the Internal Revenue Code providing for an excise tax of 1/2 cent per pound, raw value, on the manufacture or importation of sugar until 6 months after the termination of the Sugar Act. From 1933 through 1950 collections under the excise tax exceeded total payments to growers under sugar acts by \$248 million. During the past three fiscal years average collections have approximated \$76.6 million per year, and average payments have approximated \$59.5 million per year. Recently, therefore, the Act has added approximately \$17 million per year to the net income of the Treasury.

(4) Conditional Payments: The Jones-Costigan Act, in keeping with the Agricultural Adjustment Act of 1933, to which it was an amendment, provided that the so-called benefit payments would be sufficient to maintain prices at parity. Under the Sugar Acts of 1937 and 1948 the parity objective was dropped, but the conditional payments continue to constitute a significant part of the growers' income. The payments also resulted in some shift in returns from sugar beet processors to

growers, since the payments went exclusively to producers, whereas the tax constituted an item of expense which was deducted before returns were divided between the processors and growers.

Payments are graduated downward from 80 cents per 100 pounds for production of less than 350 tons of sugar per farm to 30 cents per 100 pounds for production in excess of 30,000 tons per farm. Therefore, the highest rate of payment is made on the small family-size farm.

Small payments, in the nature of minor crop insurance, are made with respect to acreage that must be abandoned due to crop failure from natural causes, and with respect to yields that fall below 80 percent normal for similar reasons.

Certain conditions must be met by a grower to qualify for payments:

- (a) The grower must not market sugarcane or sugar beets in excess of his proportionate share of the quota for his area.

- (b) If the grower is also a processor, he must pay fair prices, as determined by the Secretary of Agriculture, to other producers for sugar beets or sugarcane purchased.

- (c) The grower must pay laborers wages at least equal to those determined by the Secretary of Agriculture to be fair.

- (d) The grower must employ no child labor.

Accomplishments of the Sugar Acts.

The Jones-Costigan Sugar Act of 1934 and the Sugar Act of 1937 constituted the major means by which our domestic sugar industries and the sugar industry of Cuba were brought from severe economic depression to full recovery. During the war the payment provisions under the Sugar Act helped to maintain production in the face of rising costs and controlled sugar prices. Since the war, the Sugar Act of 1948 has largely stabilized domestic sugar prices. In 1948 and 1949 it helped to keep our domestic prices from falling unduly. During the past year the Sugar Act has been given the new role of keeping domestic prices below the world level. In recent weeks while world raw sugar prices were shooting upward to over 8 cents per pound, f.a.s. Cuba, the rise in domestic prices was moderate.

Some comparisons between 1933, the last year before the sugar legislation was put into effect, and 1950 will demonstrate a few of the benefits that have been derived from our sugar legislation.

The average retail price of refined sugar rose from 5.3 cents per pound in 1933 to 9.75 cents per pound in 1950, a rise of 84 percent. The duty-paid price of raw sugar in New York also rose by 84 percent. The price of all foods, however, rose by 143 percent. Therefore, the

rise in prices of sugar to consumers has been only about 60 percent as much as the rise in prices of foods as a whole.

In contrast with the rise of 84 percent in the price of sugar, returns to domestic growers per ton of sugar beets and sugarcane increased by around 170 percent. In other words, the increase in grower returns per unit was twice as large as the increase in the price to consumers.

Since domestic producers have also shared in this country's increased consumption, total returns of sugar beet and sugarcane growers have risen from approximately \$133 million in 1933 to \$432 million in 1950, a rise of 225 percent.

Average wage rates for field labor in the domestic sugar beet and sugarcane areas in 1950 were 393 percent of the 1934 level.

The most striking effects of our sugar legislation concern Cuba. In 1933, Cuban producers received 1.1 cents per pound, f.a.s., for sugar shipped to the United States; in 1950, they received 5.1 cents per pound, an increase of 360 percent. Imports from Cuba rose from 1,552,000 tons in 1933 to 3,264,000 tons in 1950. The income Cuba received from sugar shipped to the United States in 1950 was nine times as large as it was in 1933. Incidentally, the value of United States exports to Cuba in 1950 was more than eighteen times the value of such exports in 1933.

Need for Continuation of Sugar Act.

It has been suggested that consideration be given to the results that might be anticipated if the Sugar Act were terminated. Some of the major results that could be expected are the following:

1. Domestic sugar prices would become subject to the vagaries of inflationary and deflationary trends in the world market. If the Sugar Act had terminated last week, it is reasonably clear that domestic sugar prices would have increased by at least two cents per pound. If it had terminated without being replaced by a substitute in May of last year, prior to the outbreak of fighting in Korea, domestic prices would have fallen by about eight-tenths of a cent per pound.

Until more countries are willing to join the United States in its efforts to reduce trade barriers on sugar so that world consumption can be increased and the world "free" sugar market can become larger and more stable, small surpluses will involve disproportionate dangers for producers and small increases in demand will create shortages and high prices for consumers.

2. Wages in our domestic sugar industry would be threatened. Daily earnings of harvest workers in Hawaii and our United States beet area are the highest paid to sugar workers in the world. Only Canada among the foreign producing countries reported higher wages than those paid in Florida and Louisiana. The 275,000 field workers in our domestic sugar growing industry probably would bear the brunt of lower sugar prices if they should occur. The effect on farm wage rates would be greatest in the cane areas having few alternative enterprises.

3. Future production would probably be cut. Production of sugar beets and sugarcane, like the production of other crops, is based largely on the confidence farmers have in future returns. If their confidence in the future were destroyed, our sugar producers, particularly our beet growers, would turn more to the production of other crops. If this happened in a period of world surpluses, it would be welcomed by other producers and would not harm consumers. If it happened in a period of shortage, it could be disastrous. To illustrate, if beet sugar production had been as low in 1950 as it fell in 1948, supplies of beet sugar would now be exhausted.

4. If domestic production were cut, consumers would lose the protection afforded by having that part of their supplies come from the several competing domestic sources. In 1942 the fall of the Philippines cut off imports from that source. The submarine danger and the need for ships to carry troops and munitions made it difficult to import sugar, even from Cuba. As a result, our sugar imports from foreign countries fell to 62 percent of the prewar (1935-39) level. The recent situation in the world market in which there has been only one important seller illustrates the danger of having inadequate competition among sellers.

5. If the Sugar Act were to expire without being replaced with an effective substitute, it is reasonable to expect that it would become necessary in the relatively near future to return to a policy of tariff protection despite its recognized inability to protect consumers and its demonstrated inadequacies for the protection of sugar producers. This would constitute a serious blow to Cuba and our other foreign suppliers. It would constitute a major reversal in the trade policy this country has followed for the past 18 years. In all likelihood, it would prevent this country from occupying a position of

importance in international undertakings to reduce world trade sugar barriers and increase world consumption.

The present Sugar Act is a result of years of study and experience. It has demonstrated its ability to protect consumers as well as producers, and it has been effective in assuring that the benefits afforded the industry are passed down to farmers and to laborers in the field. It has also proved to be a means by which foreign suppliers can be aided and our export trade increased. Obviously, it will require revisions in quotas and other amendments from time to time, such as those now proposed. It is believed, however, that the Sugar Act constitutes the most desirable method that has yet been developed for dealing with our domestic sugar problem. Accordingly, the Department of Agriculture and the other interested executive departments, with the approval of the President, recommend the adoption of H.R. 4521.

THE PROPOSED AMENDMENT AND EXTENSION OF
THE SUGAR ACT OF 1948

The Sugar Act places restrictions on the domestic industry. Therefore, each domestic producing area is interested in its own quota in relation to the quotas of the other domestic areas, and the domestic areas as a whole are concerned with the total domestic quota in relation to the foreign quotas. The need for achieving a proper balance between the various supplying areas and the need for considering the production pressures within each have become even more important since fixed quotas for the domestic areas were established under the Sugar Act of 1948. Except as modified by prorations of deficits, these fixed quotas constitute ceilings for the marketings of each domestic area. These ceilings remain the same regardless of increases in domestic consumption. In the international field it is necessary to consider the division of our import quotas among foreign countries.

It was recognized that in extending the Sugar Act of 1948 some adjustments in quotas would be necessary to achieve equity and balance for the period of the extension. Ordinarily, representatives of the various domestic producing areas would undertake to work out a reconciliation of their positions. Then they would submit their combined recommendations for consideration. Recognizing that some adjustments in quotas would be necessary but that, on the whole, these should be minor, the representatives of the domestic producing areas asked that the Executive Departments undertake the preliminary work on the proposed extension and amendments.

Accordingly, an interdepartmental working committee was set up under the chairmanship of the Director of the Sugar Branch, Production and Marketing Administration, United States Department of Agriculture. This Committee included representatives from the Departments of State, Interior, Commerce, and Treasury, and from the Tariff Commission. The Tariff Commission indicated that they wanted their representative to speak only with respect to technical matters, and representatives of the Commerce and Treasury Departments indicated that they were not particularly concerned with the quota provisions. The Departments of State, Interior, and Agriculture, however, gave the quota provisions most careful consideration.

Although it was not possible to provide any domestic or foreign group all that it wished, the Executive Departments involved are of the opinion that the proposed bill, H.R. 4521, and the companion bill, S. 1694, provide a fair compromise of the various objectives. These bills reflect the collective views of the Executive Departments. The suggestions were submitted informally to your Committee to see if they constituted a reasonable point of departure prior to the time the bills were submitted formally to the Speaker of the House and to the President of the Senate. Throughout the discussions, the representatives of the Executive Departments were in consultation with representatives of the various domestic and foreign producing groups and obtained the benefit of their views and suggestions. I want to make it clear, however, that I am not speaking on behalf of any such individuals or groups.

Sugar Act of 1948

Before going into a detailed consideration of the proposed amendments, it seems worthwhile to observe one of the major objectives in writing the Sugar Act of 1948. The Sugar Act of 1948 was designed particularly to assist Cuba. The sugar acts, from their inception in 1934, have had as a part of their objectives, the improvement of our import trade in sugar and therefore our international trade generally. During World War II, as during World War I, Cuba expanded its sugar production tremendously to take care of the needs of the United States and the allied countries. Moreover, Cuba supplied us with sugar at moderate prices when it could have profiteered by selling in the world market. It was feared in 1947, when the Sugar Act of 1948 was being drafted, that a period of declining demand and retrenchment might lie ahead. Therefore, it was felt that this country had a moral obligation to give the Cuban sugar industry every reasonable assistance during the period of anticipated retrenchment and possible depression. Fortunately, Cuba has been able to market record crops at high prices. Today, in fact, an inflationary situation exists in the world market. Nevertheless, it is necessary to understand the intentions behind the Sugar Act of 1948 in order to have a proper perspective for considering the proposed modifications.

Fixed Quotas: The Sugar Act of 1948 established fixed quotas for the domestic areas and the Republic of the Philippines. These quotas are as follows: mainland beet area, 1,800,000 tons; mainland cane area, 500,000 tons; Hawaii, 1,052,000 tons; Puerto Rico, 910,000 tons; Virgin Islands, 6,000 tons; Republic of the Philippines, 982,000 short tons, raw value. Hawaii and Puerto Rico can market the additional quantities required for their local consumption, which for 1951 amounts to 45,000 tons for Hawaii and 110,000 tons for Puerto Rico. The quota stated above for the Republic of the Philippines is the raw value tonnage equivalent of the quota specified in the Act as "nine hundred and fifty-two thousand short tons of sugar as specified in section 211 of the Philippine Trade Act of 1946".

The quotas for the domestic areas total 4,286,000 short tons, and the fixed quotas as a whole, including the quota for the Philippines, total 5,268,000 tons.

Variable Quotas: The Sugar Act of 1948 provides that all United States requirements over and above those covered by fixed quotas be supplied by Cuba and the full duty countries. Of this additional quantity Cuba supplies 98.64 percent and the full duty countries 1.36 percent. Therefore, Cuba was made essentially the sole beneficiary of increased United States consumption.

The Act also provides that Cuba share proportionately with domestic areas in filling the deficit of any domestic area.

Also, since it was recognized at the time the Act was being written that the Philippines would have large deficits, at least in the early years of the Act, 95 percent of such deficits was assigned to Cuba and 5 percent to full duty countries.

By giving Cuba such large shares of deficits and making it the beneficiary of increased United States consumption, it was felt that retrenchment in Cuba could be moderated and possibly avoided. Cuba was not forced to retrench and its exports to the United States have averaged approximately 3,100,000 tons yearly since the Sugar Act of 1948 has been in effect.

Proposed Amendments

With our population increasing at close to 2 percent per year and adding around 150,000 tons annually to domestic consumption, it was felt that two of our domestic areas and the full duty countries might fairly be permitted to share a part of the increased consumption anticipated for 1953 and subsequent years.

H. R. 4521 would amend the Sugar Act of 1948 as follows:

Section 202(a) would be revised to increase the total quotas of the domestic areas from 4,268,000 short tons, raw value, to 4,444,000 tons by adding 170,000 tons to the quota of Puerto Rico and 6,000 tons to the quota of the Virgin Islands. The other domestic quotas would remain unchanged.

Recently Puerto Rico has been producing between 1,250,000 and 1,300,000 tons of sugar annually. The increase in its quota will still leave an excess of around 50,000 to 100,000 tons. Therefore, Puerto Rico will not be offered an incentive to increase its production. Certainly the increase in the Puerto Rican quota does not deviate from the principle of retaining a check on domestic production. Nevertheless, the increase of 170,000 tons should relieve most of Puerto Rico's pressure for a marketing outlet.

The Island of St. Croix in the Virgin Islands is small and subject to drought, which makes it a minor sugar producing area. The 1950 crop exceeded 10,000 tons, but most of its crops in recent years have been around 4,000 tons. After the depression closed all private mills on the Island, the Government, through the Virgin Islands Corporation, undertook production as a relief project. The Corporation is undertaking to expand production in order to prevent losses, as directed by Congress. The increase in the quota for the Virgin Islands may help the Corporation achieve its objective.

Increases in the quotas for Puerto Rico and the Virgin Islands constitute slightly more than the increase in consumption that could be expected from one year's growth in population.

Section 202(b), establishing the quota for the Philippines, is repeated without change.

Section 202(c) is amended in two respects. First, that portion of domestic requirements in excess of the fixed quotas would be divided by giving Cuba 96 percent and full duty countries 4 percent. Therefore, Cuba would continue as the primary beneficiary of increased domestic consumption during the period of the extension. The increase provided for full duty countries, however, should improve our trade relations with them. The proposed revision will permit full duty countries, as a whole, to supply as much of our total import requirements as they did during the prewar period.

The second revision in this section would modernize the distribution of the quota among full duty countries. The Sugar Act of 1948 requires the distribution to be made in accordance with regulations of the Department, which in turn are based on statistics for the years 1926, 1929, and 1930. Most of the 27 countries that received quotas under those regulations have not shipped us sugar for a number of years. The proposed amendment provides that 95 percent of the full duty quota be prorated to countries that have shipped us 2 percent or more of the quota during the period 1948 to 1950. Any other country would be permitted to import within the remaining 5 percent, but no single country could enter more than one percent.

Section 202(d) of the Sugar Act guarantees Cuba that it will not be given a smaller quota under the Act of 1948 than it would have received from an equivalent United States requirement under the Sugar Act of 1937. This provision seems to be an unnecessary precaution in view of the fact that the Sugar Act of 1948 was designed to give Cuba greater benefits than the Sugar Act of 1937. Actually, under the Act, Cuba has supplied over 40 percent of our total requirements, whereas this provision guaranteed Cuba only 28.6 percent.

Both the Sugar Act of 1948 and the proposed amendments are far more favorable to Cuba than the Sugar Act of 1937. However, Cuba has expressed the view that it would feel that it is being deprived of some benefit if the provision were deleted. Therefore, the provision has been amended to make it fully as effective during the period of the extension as it is under the present Act. For a total United States requirement of 7,400,000 tons, this provision guarantees Cuba a quota of 2,116,000 tons. Under the present Act, the provision has no significance at higher levels, since Cuba's quota is increased beyond that percentage by other provisions of the Act.

Section 202(e) of the Sugar Act of 1948 is omitted. That is the section under which it is possible to withhold quota increases from any foreign country that denies fair and equitable treatment to the nationals of the United States. It does not appear germane to the administration of the Sugar Act.

Section 204(a) of the Act would be amended in several respects:

The present Act provides that the Secretary of Agriculture shall from time to time "during the calendar year" determine whether any area will be unable to market its quota. By omitting the words "during the calendar year" the Secretary could, if he had the information, make a deficit determination and proration during December immediately following his determination of total consumption requirements. This would enable the Department to establish quotas for the various domestic and foreign areas prior to January 1. This would be of advantage to the trade and to the administrative agencies.

A proviso that makes it impossible for a domestic area to share in a deficit whenever the determination of total requirements is less than 7,000,000 tons is omitted. The provision seems useless in view of our present and prospective consumption.

Under the proposed amendment any Philippine deficit would be shared in the same manner that increased consumption is shared, 96 percent to Cuba and 4 percent to full duty countries. The present Act gives 95 percent to Cuba and 5 percent to full duty countries.

Section 204(a) of the Act would be revised to enable the Secretary to determine that full duty countries as a whole would be unable to fill their quota. He could then increase the quota of Cuba by the amount of such deficit. The present and past acts have contained no such provision. Although the provision is not of vital importance, it seems prudent as we face an expanding future demand to make it possible for the Secretary to declare such deficit and transfer the quota to Cuba where it could be utilized. In considering this proposed provision it might be kept in mind that under subsection (b) the Secretary is authorized to reapportion the full duty quota among the various full duty countries, and under section 204(a) he is able to determine a deficit for Cuba and revise the domestic quotas accordingly. The suggested revision, therefore, would make it possible to insure the utilization of the full duty quota.

Finally, section 204(a) of the Act would be amended by simplifying the procedure for dealing with deficits. The present provisions of the Act with respect to the method of prorating deficits would not be changed so long as the areas receiving the prorations were able to supply the necessary sugar. The proposed amendment would simplify procedure in cases in which one or more of the areas could not fill the increased quota.

The provision of section 204(a) which requires that the amount of any Philippine deficit can be filled only with raw sugar is omitted because the point is covered by an amendment to section 207.

Section 204(b) of the Act would be revised to make it more flexible. The present provision requires the Department to determine on the first of September of each year the extent to which any full duty countries have failed to fill their respective proration of the full duty quota and requires the Secretary to reassign such amounts to countries that have filled their prorations by that date. The proposed revision would enable the Secretary to make the necessary determination whenever the facts became available and to assign the additional quantities to countries most likely to fill the revised proration. The original prorations to full duty countries would still be reassigned, if not utilized by September 1.

Section 204(c) would be amended slightly for technical clarity without changing the substance. Technically, there is one quota for full duty countries as a whole and this is prorated among them. As it now stands, the term "quota" is used in reference to the proration to the individual countries.

Section 207 of the Act would be amended by adding a new subsection (h). The present Act permits full duty countries to fill with either raw or direct-consumption sugar their quota amounting to 1.36 percent of the quantity by which United States requirements exceed the sum of the fixed quotas for the domestic areas and the Philippines. Actually, the full duty countries have filled only about one-third of their quota of direct-consumption sugar and the remainder with raw sugar. It was felt that the increase in the participation of full duty countries in our market should not change the balance previously established between raw and direct-consumption sugar. The proposed amendment would enable full duty countries to ship to this country the same total quantity of direct-consumption sugar as they now can under the Sugar Act of 1948. To prevent one or more countries from encroaching on the shares for others, a proviso is included to enable each country to enter no less direct-consumption sugar than it did on the average during the years 1948, 1949 and 1950.

Section 411 of the Act would be amended by extending the termination date from December 31, 1952 to December 31, 1956. Since the domestic areas operate under fixed quotas, it is considered inadvisable to make the duration for a longer period. It is always possible that fixed quotas may begin to pinch unduly on some area and if the proposed amendments are adopted, three of the five domestic areas will have had their quotas unchanged for nine years.

Section 3508 of the Internal Revenue Code would be amended by extending the period for the excise tax on sugar from June 30, 1953 to June 30, 1957.

The final section of the bill makes the proposed amendments become effective January 1, 1953, but would enable the Secretary to make the necessary consumption requirement determination for 1953 in the preceding December, as is customary. It would also enable him to issue the other determinations and regulations as required without waiting until January 1953.

The proposed amendments, therefore, would permit the carrying out of the Sugar Act of 1948 without change to the date of its original termination and would extend the Act with the proposed modifications for an additional four years. If the Act is extended, as proposed, during the present session of Congress, sugar producers in the domestic and foreign areas supplying this market will be able to plan their 1952 production program with the prior knowledge that they will be able to market their crops during 1953 under the safeguards of the sugar legislation.

It is believed that these proposals constitute a reasonable compromise of the conflicting views and objectives of the various groups. It was not possible to give each group all of the marketing opportunities and all of the protections it desired. Puerto Rico would have liked a larger quota. Many in the West would have desired a larger best sugar quota. Our mainland cane growers too would have liked a larger quota. Against these desires were considered the international trade objectives of the legislation.

Peru and the Dominican Republic made strong pleas for still larger quotas. Cuba, on the other hand, naturally would have preferred to continue the Sugar Act of 1948 for as long as possible without change. In view of the upward trend in consumption in the United States, it is evident that Cuba's quotas will average even higher during the period of the proposed extension than they will under the Sugar Act of 1948.

On the whole, it is believed that the various interested groups accept the proposed bill as a reasonable set of compromises. One point is still at issue. One of the domestic companies, a large importer and distributor of molasses and sirups, requested that the definition of liquid sugar be revised to provide that the percentage of soluble non-sugar solids be equal to 5 percentum or less of the total soluble non-sugar solids. The present definition specifies 6 percentum.

This proposal has a long history. Under the Jones-Costigan Sugar Act of 1934, the following definition was included: "The term 'sugar' means sugar in any form whatsoever, derived from sugar beets or sugarcane, whether raw sugar or direct-consumption sugar, including also edible molasses, sirups and any mixture containing sugar (except blackstrap molasses and beet molasses). In the administration of the Act, the Secretary of Agriculture issued regulations covering the quantity of sirups and sugar mixtures which could be imported for consumption into the continental United States. In the regulation issued December 12, 1936, it was stated that "the term 'sirups and sugar mixtures'...means any sugars which are principally not of crystalline structure...which contain soluble non-sugar solids of less than 6 percent of the total soluble solids...". In the Sugar Acts of 1937 and 1948, the term "liquid sugar" has been similarly defined and import quotas for liquid sugar have been established for Cuba and the Dominican Republic equal to those established in the 1936 regulation.

In connection with the 1941 extension of the Sugar Act, the Agriculture Committee of the House considered the matter and decided that the percentage should be increased to 8 percent. The bill passed the House in that form. The Executive Departments recommended against the provision on the grounds that it would be injurious to countries that had been shipping edible sirups to the United States. Since the proposed extension was not considered by the Senate until after Pearl Harbor, when it seemed unwise to make changes that might cause international controversies, it was decided to extend the act without change.

It appears to have been the consistent position of the one company that the definition of liquid sugar should have been confined to solutions containing less than 4 percent of soluble non-sugar solids. Apparently the rest of the domestic sugar industry believed that 8 percent was the proper figure.

There appear to be no natural dividing lines that can serve as guides for such definition. It is sometimes said that sirups and molasses are purchased for taste, whereas liquid sugar is purchased for sweetness. This, of course, is a matter of degree. Essentially, the same situation appears to

exist in the crystalline field between refined sugars on the one hand and dark brown sugars on the other. As the soluble non-sugar solids are reduced, the product approaches refined sugar or its equivalent in liquid sugar.

Considerable point is made of the fact that Barbados molasses is low in soluble non-sugar solids and frequently falls within the definition of liquid sugar. During the period that this definition has been in effect, imports from Barbados have gone down from 1,565,000 gallons to 87,000 gallons. Last year they were up to 680,000 gallons. Apparently, other factors are of more importance than the definition of liquid sugar in determining imports. Imports from Barbados are small in comparison with those from Cuba. It must be admitted that from Cuba, at least, any quality of product from liquid sugar to blackstrap can be obtained. Therefore, any difficulty arising from the definition in that case is the importer's responsibility. It must be kept in mind also that the definition which would be applicable to such imports would also be applicable to refiners' sirup and other sirups. The few thousands of gallons of Barbados molasses that might be affected should not dominate thinking to the exclusion of consideration of the millions of gallons of other sirups and molasses affected. In this connection it must be recalled that during the war the production of refiners' sirups alone increased to eight times the prewar level. It is common knowledge that the increased quantity was used as a sugar substitute.

Finally, it is clear that any dividing line will present difficulties. Producers always hew to the dividing line as closely as possible. Unavoidably they will go too far in some cases.

After giving the matter careful consideration, the Sugar Branch has reluctantly come to the conclusion that it is unable at this time to recommend a lowering of the figure for soluble non-sugar solids.



A BILL

To amend and extend the Sugar Act of 1948
and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 202 of the Sugar Act of 1948 is hereby amended to read as follows:

"SEC. 202. Whenever a determination is made, pursuant to section 201, of the amount of sugar needed to meet the requirements of consumers, the Secretary shall establish quotas, or revise existing quotas--

"(a) For domestic sugar-producing areas, by apportioning among such areas 4,444,000 short tons, raw value, as follows:

<u>Area</u>	<u>Short tons, raw value</u>
Domestic beet sugar	1,800,000
Mainland cane sugar	500,000
Hawaii	1,052,000
Puerto Rico	1,080,000
Virgin Islands	12,000

"(b) For the Republic of the Philippines, in the amount of nine hundred and fifty-two thousand short tons of sugar as specified in section 211 of the Philippine Trade Act of 1946.

"(c) For foreign countries other than the Republic of the Philippines, by prorating among such countries an amount of sugar, raw value, equal to the amount determined pursuant to section 201 less the sum of the quotas established pursuant to subsections (a) and (b) of this section, on the following basis:

<u>Area</u>	<u>Per centum</u>
Cuba	96
Foreign countries other than Cuba and the Republic of the Philippines	1

"Ninety-five per centum of the quota for foreign countries other than Cuba and the Republic of the Philippines shall be prorated among such countries on the basis of the average amount imported from each such country within the quotas established for the years 1948, 1949, and 1950, except that a separate proration need not be established for any country which entered less than two per centum of the average importations within the quotas for such years. The amount of the quota not so prorated may be filled by countries not receiving separate prorations, but no such country shall enter an amount pursuant to this subsection in excess of one per centum of the quota for foreign countries other than Cuba and the Republic of the Philippines.

"(d) Notwithstanding the other provisions of this title II, the minimum quota established for Cuba, including increases resulting from deficits determined pursuant to section 204(a), shall not be less than the following:

- (1) 28.6 per centum of the amount of sugar determined under section 201 when such amount is 7,400,000 short tons or less; and
- (2) 2,116,000 short tons, when the amount of sugar determined under section 201 is more than 7,400,000 short tons.

"The quotas for domestic sugar-producing areas, established pursuant to the other provisions of this title II, shall be reduced pro rata by such amounts as may be required to establish such minimum quota for Cuba."

SEC. 2. Section 204 of such Act is amended to read as follows:

"SEC. 204 (a). The Secretary shall from time to time determine whether, in view of the current inventories of sugar, the estimated production from the acreage of sugarcane or sugar beets planted, the normal marketings within a calendar year of new-crop sugar, and other pertinent factors, any area will be unable to market the quota for such area. If the Secretary finds that any domestic area or Cuba will be unable to market the quota for such area, he shall revise the quotas for the domestic areas and Cuba by prorating an amount of sugar equal to the deficit so determined to the other such areas on the basis of the quotas then in effect. If the Secretary finds that the Republic of the Philippines will be unable to market the quota for such area, he shall revise the quotas for Cuba and foreign countries other than Cuba and the Republic of the Philippines by prorating an amount of sugar equal to the deficit so determined, as follows:

To Cuba	96 per centum
To foreign countries other than Cuba and the Republic of the Philippines	4 per centum

If the Secretary finds that foreign countries other than Cuba and the Republic of the Philippines cannot fill the quota for such area, he shall increase the quota for Cuba by an amount equal to the deficit.

"Whenever the Secretary finds that any area will be unable to fill its proration of any such deficit, he may apportion such unfilled amount on such basis and to such areas as he determines is required to fill such deficit.

"(b) Whenever the Secretary finds that any country will be unable to fill the proration to such country of the quota for foreign countries other than Cuba and the Republic of the Philippines

established under section 202(c), or that any part of such proration has not been filled on September 1 of the calendar year, he may apportion such unfilled amount on such basis and to such countries as he determines is required to fill such proration.

"(c) The quota or applicable proration for any domestic area, the Republic of the Philippines, Cuba, or other foreign countries as established under the provisions of section 202 shall not be reduced by reason of any determination of a deficit existing in any calendar year under the provisions of subsections (a) and (b) of this section."

SEC. 3. Section 207 of such Act is amended by adding a new subsection (h) as follows:

"(h) The quota for foreign countries other than Cuba and the Republic of the Philippines may be filled by direct-consumption sugar only to the extent of 1.36 per centum of the amount of sugar determined pursuant to section 201 less the sum of the quotas established in subsections (a) and (b) of section 202: Provided, That each such country shall not be permitted to enter an amount of direct-consumption sugar not less than the average amount entered by it during the years 1948, 1949, and 1950."

SEC. 4. Section 411 of such Act is amended to read as follows:

"SEC. 411. The powers vested in the Secretary under this Act shall terminate on December 31, 1956, except that the Secretary shall have power to make payments under title III under programs applicable to the crop year 1956 and previous crop years."

SEC. 5. Section 3508 of the Internal Revenue Code (relating to termination of taxes) is amended by striking out "June 30, 1953" wherever appearing therein and inserting in lieu thereof "June 30, 1957".

SEC. 6. The amendments herein shall become effective January 1, 1953, except that sections 1 through 3 hereof shall be effective for purposes of the determinations and regulations required for the calendar year 1953.

THE BACKGROUND AND OPERATIONS OF THE SUGAR ACTS

Importance of the Domestic Sugar Industry

Almost 8 million tons of refined sugar were distributed in the United States last year. Had all of it been sold at retail, its value would have been more than one and a half billion dollars. At the average New York wholesale net cash price for the year, its value was one and a quarter billion dollars.

More than half of this sugar was produced in continental United States and the insular territories and, of the remainder, all but 10 percent was refined in this country. The beet sugar production of 22 Western and North Central States approximated 2 million tons in 1950. Raw sugar production in Louisiana and Florida amounted to 560 thousand tons, and in Hawaii and Puerto Rico production approximated 2.2 million tons.

Thirty-four cane sugar refineries, 71 beet sugar factories, and 120 raw cane sugar mills are in operation in the United States. These factories employ approximately 72 thousand workers and, in addition, there are 275 thousand farm workers employed, principally on a seasonal basis, in sugarcane and sugar beet fields. More than 50 thousand farm operators grow sugarcane or sugar beets, and in addition there are 20 thousand co-producers or non-operating farm landlords who share in the crops.

In the localities where grown, sugar beets account for a substantial portion of farm income. In Weld County, Colorado, for instance, it is estimated that sugar beets represent from 25 to 30 percent of the total value of all crops. Sugarcane looms even larger in the single-crop agricultural economy of the areas where it is grown. In Iberia Parish, a county located in the heart of the Louisiana sugar belt, it is estimated that sugarcane constitutes two-thirds of the total value of all farm crops. In Puerto Rico, sugar, molasses, and rum make up approximately two-thirds of the value of all out-shipments; and in 1947, the last year for which such information is available, sugar and molasses represented 43 percent of the value of all out-shipments from Hawaii.

To look at it in another way, the average American in 1950 consumed approximately 97 pounds of refined sugar, and for that portion of it which he purchased as sugar he paid an average of nine and three-quarters cents per pound. By way of comparison, in 1900 the average consumer used 70 pounds and the price he paid for it was 6.1 cents.

World Situation

The past century has marked the transition of sugar from a luxury product to a basic part of the diet of most of the world and one of the cheapest foods per calorie. Between 1860 and 1950, sugar prices in the U. S. declined by 20 percent, while the index for all foods increased more than 200 percent.

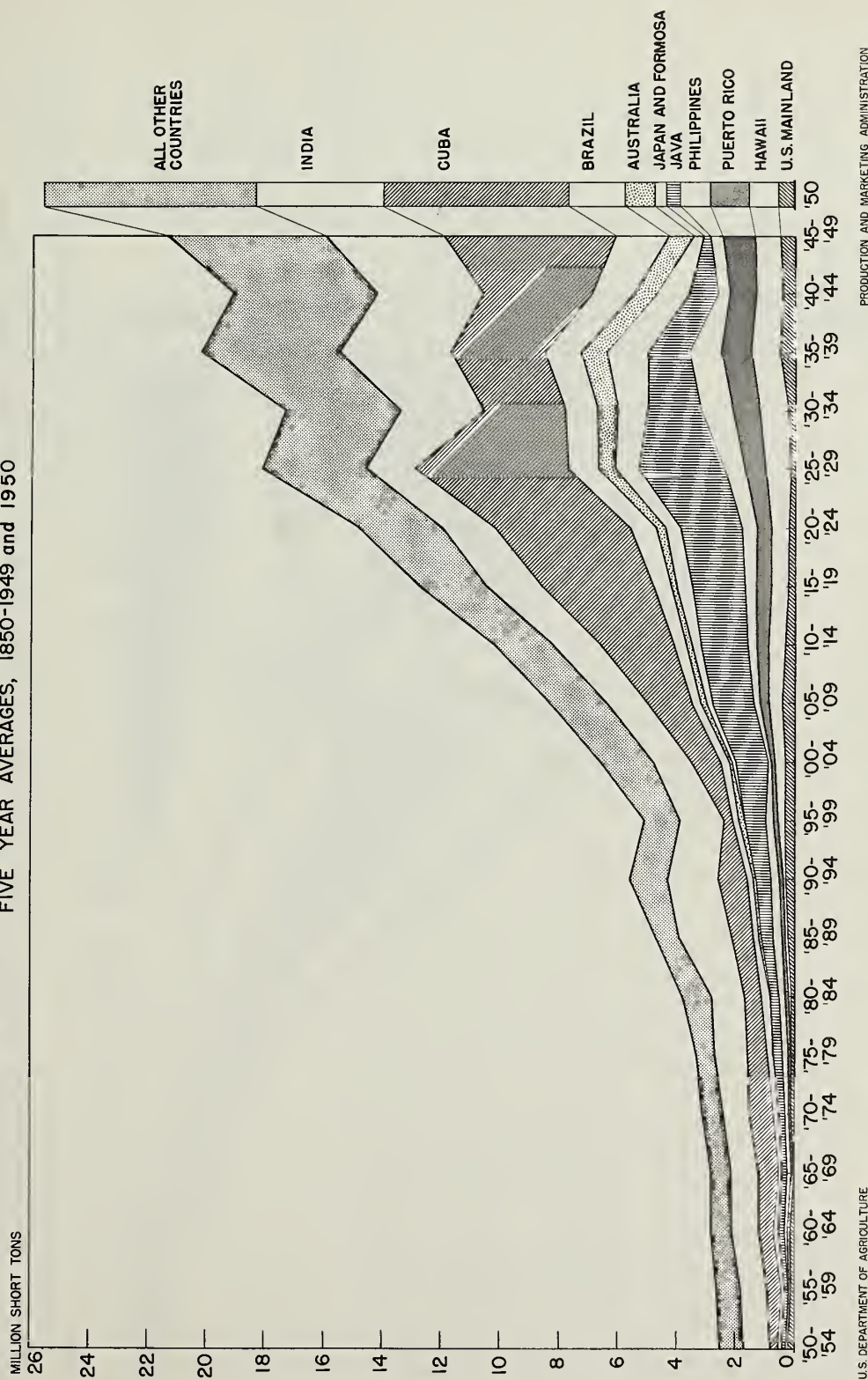
The downward trend in sugar prices has accompanied great increases in production. A century ago sugar was produced, chiefly by primitive methods, as an export crop in a relatively few tropical areas. In contrast to this, the world's sugar output in 1950 totaled 40 million tons, 15 times the volume produced a century ago. Beet sugar production has expanded from less than 10 percent to more than one third the total (See figure 1), and now plays an important role in the rotation system and livestock economy, as well as in agricultural policy, in areas where beets are grown.

Today sugar is grown by both exporting and importing countries in almost every part of the world. As production has increased, the world's sugar economy has become much more complex and increasingly susceptible to depression, since output can not be contracted rapidly when prices are unfavorable. In the cane areas, moreover, heavy capital investment has raised the ratio of fixed to variable costs. Adding to the complexity is the fact that most countries have tariffs or other trade restrictions, subsidies, or monopolies which affect production, consumption, and trade in sugar.

At the outbreak of World War II, only about 10 percent of the world's production was traded on the free market. The free market (chiefly Cuba) supplied a higher percentage of the total immediately following World War II because of the wartime decline in sugar production in many protected areas. However, by 1950 the policies of most of the important sugar-consuming nations were again based on further production increases in the areas included within their protective systems. (See figures 2 and 3.)

As outlets for free market sugar are reduced, the position of the free-market exporters becomes increasingly unstable. Fluctuations in output or in importers' requirements, even though small compared with total world production, may be large in comparison with the amount of sugar which can be sold on the free market. Since most non-exporting countries look to the free market to meet the residual of their requirements not filled by producers within their own protective systems, it is the free market which feels most of the incidence of the world's fluctuations in production and requirements. As the free market shrinks, these fluctuations have a progressively greater impact on prices. Since the U. S. imports a substantial share of its sugar requirements from Cuba (which is also the largest exporter to the free market), U. S. producers and consumers cannot be wholly insulated from extreme price changes on the free market.

CANE SUGAR PRODUCTION: WORLD AND SELECTED COUNTRIES, FIVE YEAR AVERAGES, 1850-1949 and 1950



U.S. DEPARTMENT OF AGRICULTURE

PRODUCTION AND MARKETING ADMINISTRATION

Figure 2. Cuba and India have long been the largest producers of cane sugar. Production in Java, Formosa and the Philippines fell drastically during World War II. Since then production in the Philippines has recovered largely, but production in Java and Formosa is still low. Production in Cuba, India, Brazil and other countries increased greatly during and after the war.

Production includes non-centrifugal sugar converted to centrifugal equivalent. Production of Pakistan and Burma included with India.

BEET SUGAR PRODUCTION: WORLD AND SELECTED COUNTRIES, FIVE YEAR AVERAGES, 1850-1949 and 1950

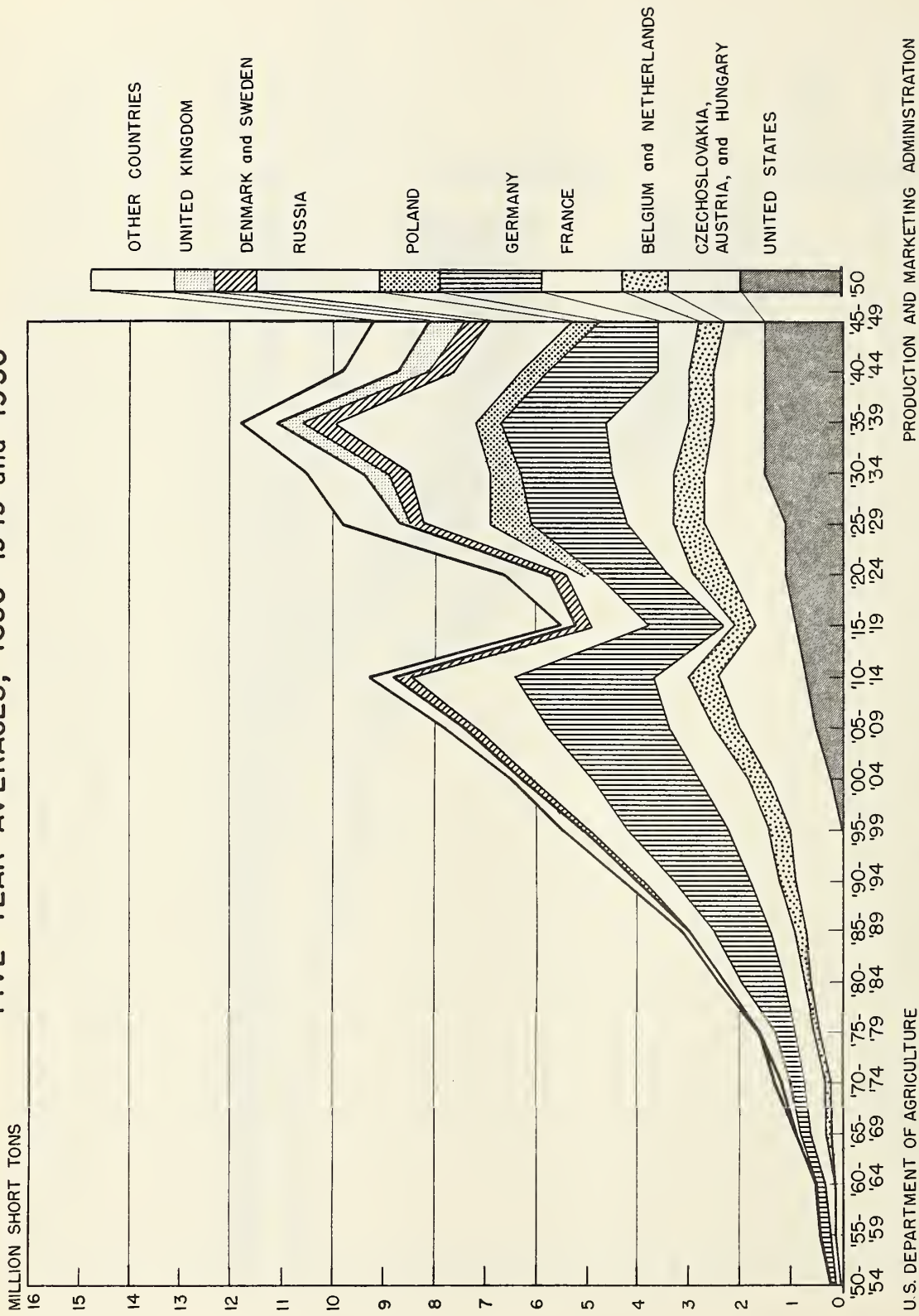
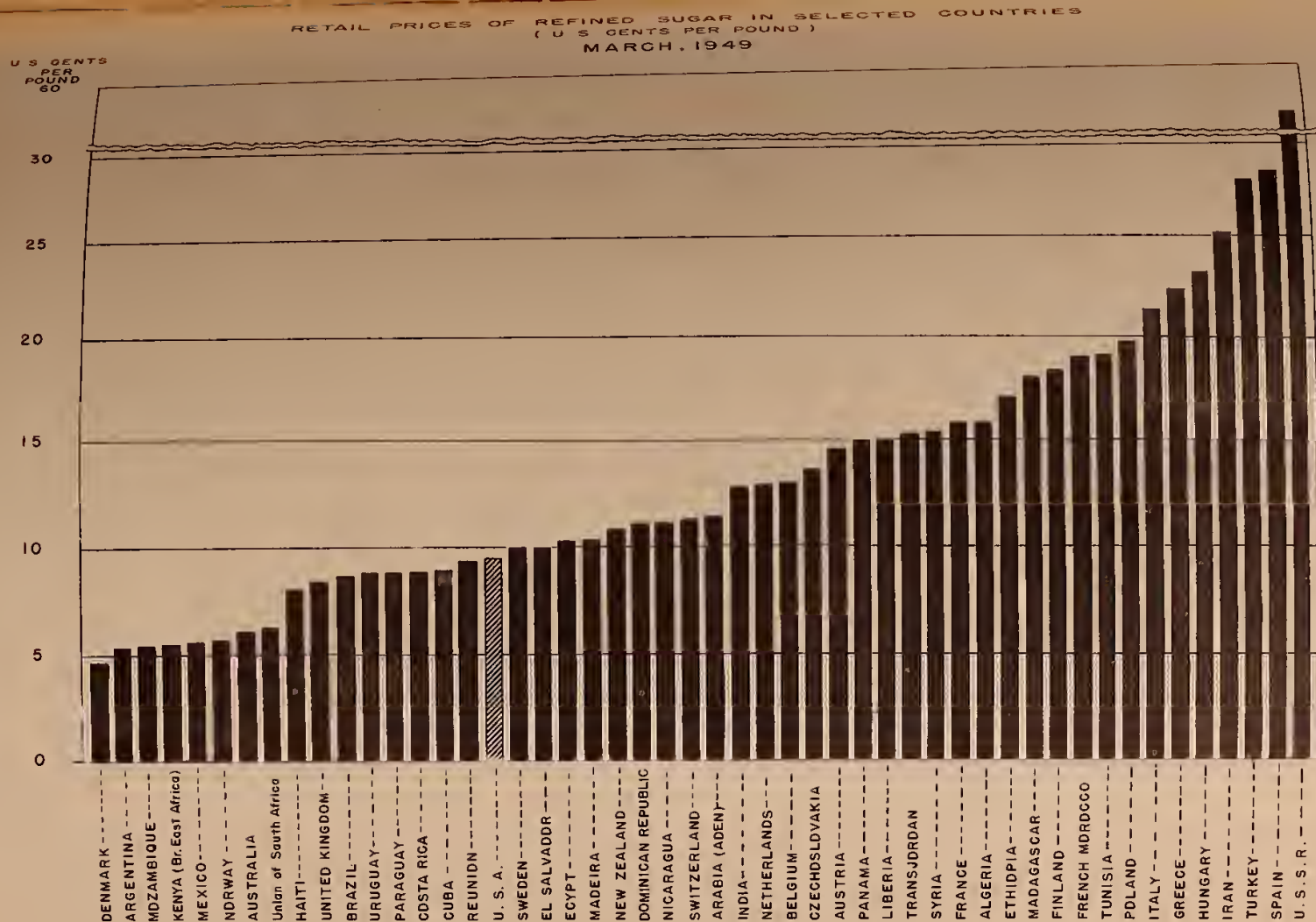


Figure 3. The production of beet sugar expanded rapidly before World War I and between the wars. Since World War II it has risen to a new peak.



REFINED SUGAR CONSUMPTION IN SELECTED COUNTRIES
(POUNDS PER CAPITA)
1948

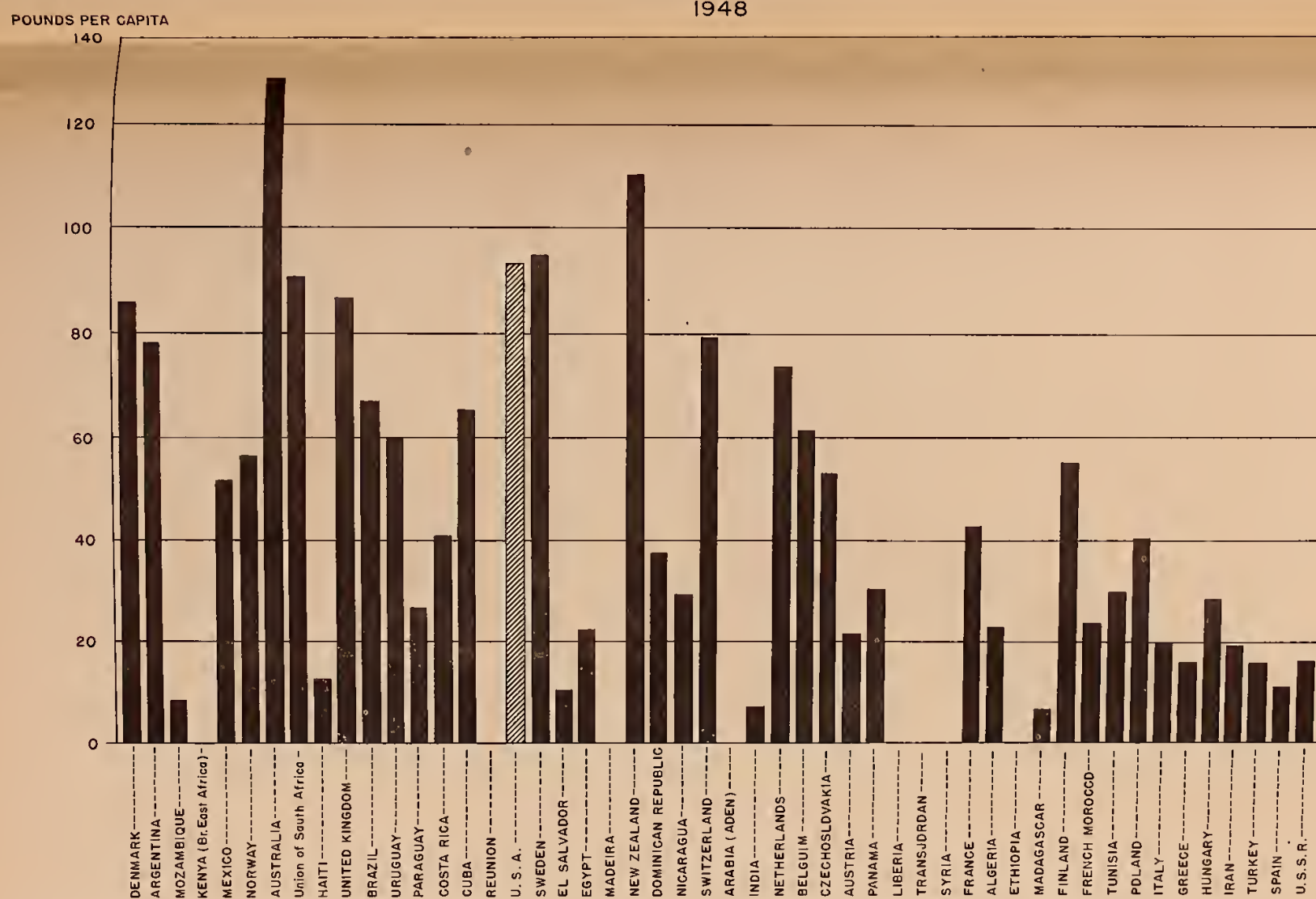


Figure 4. The United States is among the countries having relatively low retail sugar prices. Among the countries having lower prices are several subsidizing the cost of sugar to consumers. Low prices tend to be associated with high consumption and vice versa. Other factors influencing sugar consumption are consumer purchasing power and restrictive governmental policies. Prices as of March 1949 were converted to U. S. cents at exchange rates prevailing before currency devaluation. Data available for August 1950 indicate that prices in terms of local currencies were largely unchanged from those of March 1949. Therefore, in U. S. currency, prices as of August 1950 for many countries would be about 30 percent lower than those shown in this figure. The ultimate effects of currency devaluation are not yet evident.

In many countries the various trade restrictions result in high consumer prices and reduced consumption. Figure 4 shows retail prices of sugar in selected countries as of March 1949. The wide range in prices, from 4.6 cents a pound in Denmark to 56.8 cents in U.S.S.R., would not be possible under freely competitive conditions. A theoretical free-market retail price might be obtained by adding to the March 1949 world price of 4.2 cents (f.o.b. Cuba), another three to five cents, corresponding to costs of refining, transportation, and distribution. This would yield a maximum free retail price of about 7 to 9 cents. Countries where prices are above that level presumably impose restrictions on sugar trade and consumption; countries where prices are much below that level generally do not import sugar, or they subsidize the cost of sugar to consumers. The U. S. price of 9.5 cents is one of the lowest among importing countries which do not subsidize consumption.

Tariffs and internal taxes amounting to more than two cents a pound on imported sugar are common. In Italy, Spain, Czechoslovakia, Hungary, Rumania, Egypt, and Brazil taxes levied on imported sugar are more than 5 cents a pound. In many countries additional restrictions are used in conjunction with taxes on sugar. Many governments control the entire sugar industry, either directly or through quasi-government corporations. Prices are fixed from the producer through the retailer level, and imports limited through licensing or allocations of foreign exchange. In general, such restrictions on supply accompany retail prices well above competitive levels, though in a few countries, notably the U.K., Eire, and Denmark, protection of high-cost producers accompanies low retail prices as a result of consumer subsidies. In these countries sugar-rationing is still used to reduce the pressure of consumer demand on short supplies.

The effectiveness of high-prices as a restrictive measure may be judged from the per capita consumption shown in figure 4. High per capita sugar consumption in 1948 was generally associated with low or moderate retail prices. U. S. consumption of 93 pounds was exceeded only by that in Australia, New Zealand, Canada, and Sweden, where prices also are relatively low. At the other end of the scale, the high prices of sugar in such countries as Italy, Spain, Hungary, Iran, and Poland were accompanied by low per capita consumption. The relationship between prices and per capita consumption is not perfect, as consumption is influenced by other economic factors besides price, notably consumer purchasing power. In general, the countries with high consumption and low prices were also those with relatively high purchasing power. A price of 10 cents a pound is probably less burdensome to U. S. consumers than the same, or even lower, prices would be to consumers in most other countries. In terms of consumer purchasing power sugar prices in the United States were the lowest reported in the world.

While many countries restrict sugar imports, others stimulate exports by means of subsidies. Since subsidies are often indirect, it is not always easy to recognize their presence. In general a subsidy may be said to exist when the price of sugar for export is substantially below the corresponding price for domestic consumption.

Exports of sugar are subsidized, at least occasionally, by many countries, but the implications of this practice for the free market vary widely. Some countries resort to export subsidies as a temporary expedient to relieve them of unexpected sugar surpluses and others, which normally produce sugar for export, employ subsidies occasionally to offset losses from a decline in the world price.

Such occasional subsidies, however, do not contribute so much to the instability of the world market as the large subsidized exports which regularly result from the sugar policies of certain countries, notably those of Eastern Europe. Part of their loss from exporting sugar below cost is made up by charging very high prices for sugar consumed domestically, as illustrated by the retail prices in Eastern European countries shown in figure 4. If per capita sugar consumption in Eastern Europe were not limited by high prices and other restrictions, most of the sugar produced there could probably be consumed within that area and would not be a constant threat to the stability of the free market.

Wages and labor productivity are important elements in determining an area's relative efficiency and its ability to compete with other areas. The daily cash earnings of field workers harvesting sugar crops in selected areas, presented in figure 5, cover a wide range, from \$8.95 in Hawaii to \$0.62 in Mauritius. The high earnings in Hawaii and the U. S. beet area have been made possible by their high productivity.

Only general comparisons among areas on the basis of these data may be made, as daily earnings (even if adjusted for relative productivity) do not represent the same percentage of total or of labor cost for all areas. In Hawaii, the U. S. beet area, and Louisiana, where harvesting is largely mechanized, costs of machine maintenance would need to be taken into account for complete comparability with hand-harvested areas. Also, since the daily earnings are confined to cash, they do not take into account the perquisites such as housing, food, social insurance, etc. which are also furnished to workers in many areas. Perhaps even more important, the earnings data are not a measure of relative real income because of the great differences which customarily prevail with regard to general wage levels, living standards, and prices of consumer goods.

Nevertheless, differences in wages do constitute an important competitive factor in many cases. The essential one-crop character of most sugar cane producing areas, the large investments requiring continuous production and the relative immobility of labor make wage levels of greater importance than they would be in many enterprises.

SUGAR BEETS AND SUGAR CANE DAILY EARNINGS OF HARVEST WORKERS - 1950 CROP

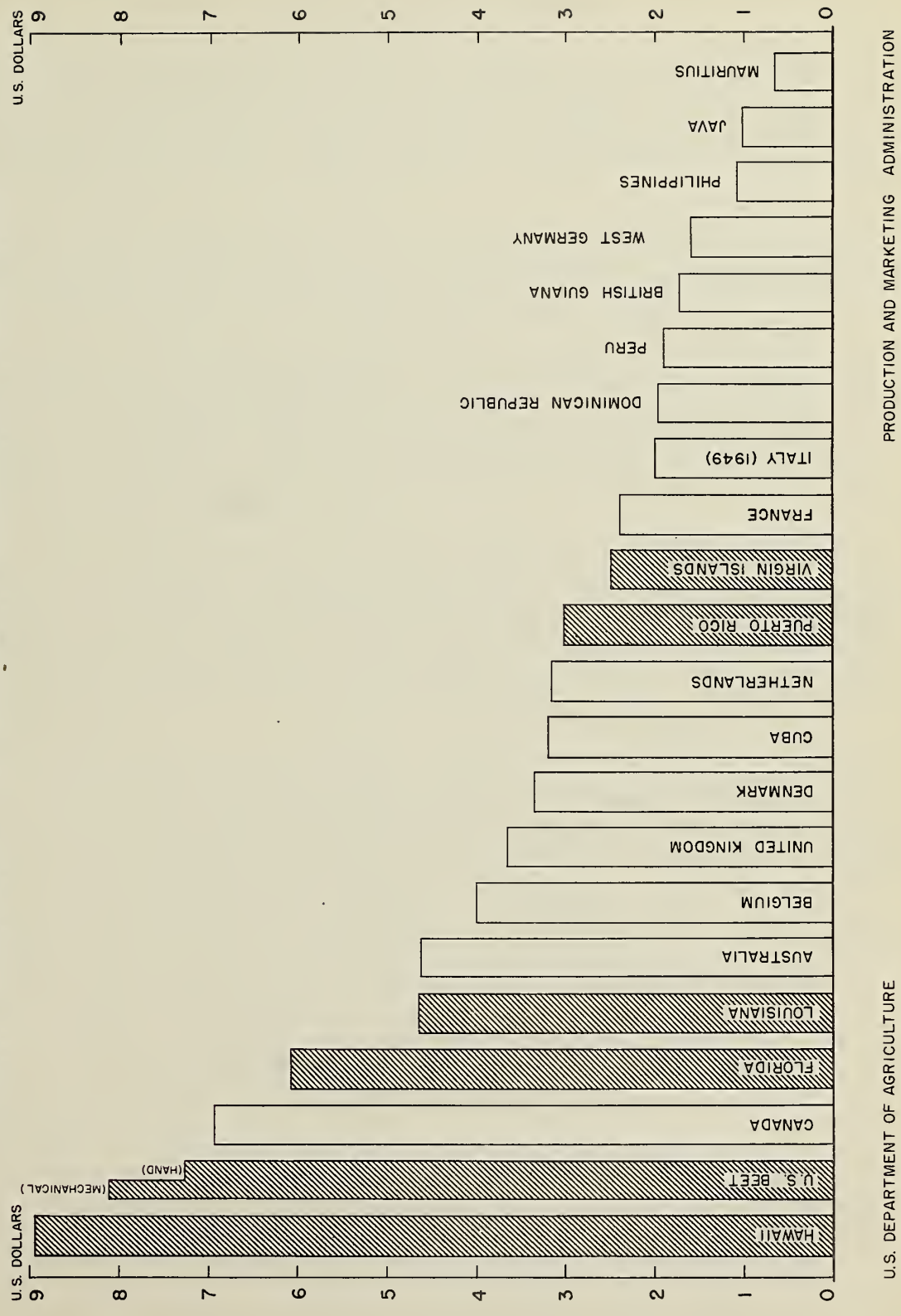


Figure 5. Daily earnings of harvest workers in U. S. areas are among the highest in the world.

United States Situation

Total sugar supplies available for marketing in the United States have more than trebled in the past 50 years, while production in U. S. areas has increased more than six times. In 1950, domestic areas supplied more than half of this country's requirements as against only 30 percent in 1900. (See figure 6.)

Among the domestic sources, the U. S. beet area has shown the greatest increase - over 1000 percent. Next come Hawaii and Puerto Rico, each with increases of over 200 percent; and finally the mainland cane areas, where total production in 1950 was almost double that of 1900.

In 1950 Cuba supplied this country with six times as much sugar as it did in 1900; and the Philippines have become a major supplier whereas they were a negligible source of supplies at the beginning of the century. On the other hand, whereas in 1900 we imported 350,000 tons of European beet sugar, since the outbreak of World War I imports of beet sugar have been negligible.

Until 1923, imports from Cuba increased much more rapidly than those from the Philippines. Between 1924 and 1933 those from the Philippines increased, while Cuba's marketings declined. The increase in Philippine production at the expense of Cuba was clearly one of the major factors affecting the Cuban sugar economy during that period. From 1934 until the outbreak of World War II, the relationship between these two areas was stabilized.

The changing shares of U. S. sugar supplies contributed by the different areas result from several causes, chiefly development in technology and organization within the sugar industry, changes in general economic conditions, and revisions of U. S. sugar policy. In the decade 1900-10, the beet sugar industry became firmly established. The extension of free trade to Puerto Rico in 1901 and the grant of tariff preference to Cuba in 1903 stimulated expansion of sugar production in those areas, and soon reduced the share of the full-duty countries in the U.S. market. During the succeeding decade, 1910-20, sugar production increased most notably in the Philippines (which were granted free entry for sugar in 1913) and in the beet area and Cuba, where production expanded rapidly in response to the high sugar prices during and immediately following World War I. The decade 1920-30 saw further increases, particularly between 1925 and 1929, in U. S. insular areas and Cuba. The factors chiefly responsible for larger sugar output during the 1920's were more intensive cultivation, more efficient processing, and the introduction of new cane varieties. The year 1926 marked the turning point for mainland cane, which had been declining for some time because of mosaic and red rot in Louisiana. Introduction of new disease-resistant varieties and the opening of new sugar areas in Florida have caused an upward trend in mainland cane sugar production since 1926.

The depression that started in the fall of 1929 checked expansion in the U. S. sugar market. Thereafter came a period of contracting demand. Prices in the U. S. continued to fall sharply despite the two-cent tariff imposed on Cuban sugar in 1930 to protect American producers. This tariff merely stimulated further increases in the Philippines and U. S. areas (except mainland cane), and Cuba bore almost the full incidence of the shrinking market.

By setting quotas on the quantities of sugar to be marketed in the U. S. by the various domestic and foreign areas, the Sugar Acts have, since 1934, tended to stabilize the shares contributed by each. The expansion which again characterized the U. S. market both immediately preceding World War II, and following the lifting of wartime controls, has permitted successive increases in the quotas and marketings of all the major areas supplying the U. S., except the Philippines, which have not yet fully recovered from wartime devastation.

In relation to the prices of other foods, the price of sugar in the U. S. has declined greatly over the past 90 years, as illustrated in figure 7. In terms of a constant food dollar - the 1935-39 level for prices of all foods - the price of sugar has declined from a level of around 13 cents per pound for the decade of the 1860's to 3.7 cents in 1950. The downward trend in relative sugar prices was accompanied by an upward trend in per capita sugar distribution from 1860 to the middle 1920's. This carried per capita sugar distribution from 19 pounds per year during the Civil War to 117 pounds in 1926.

From 1926 to 1934 annual per capita distribution fell 17 pounds. Changes in consumer incomes and in prices of sugar could have accounted for a part of this decrease, but it is apparent that per capita distribution did not respond appreciably to higher incomes and continued low sugar prices from 1934 to 1940.

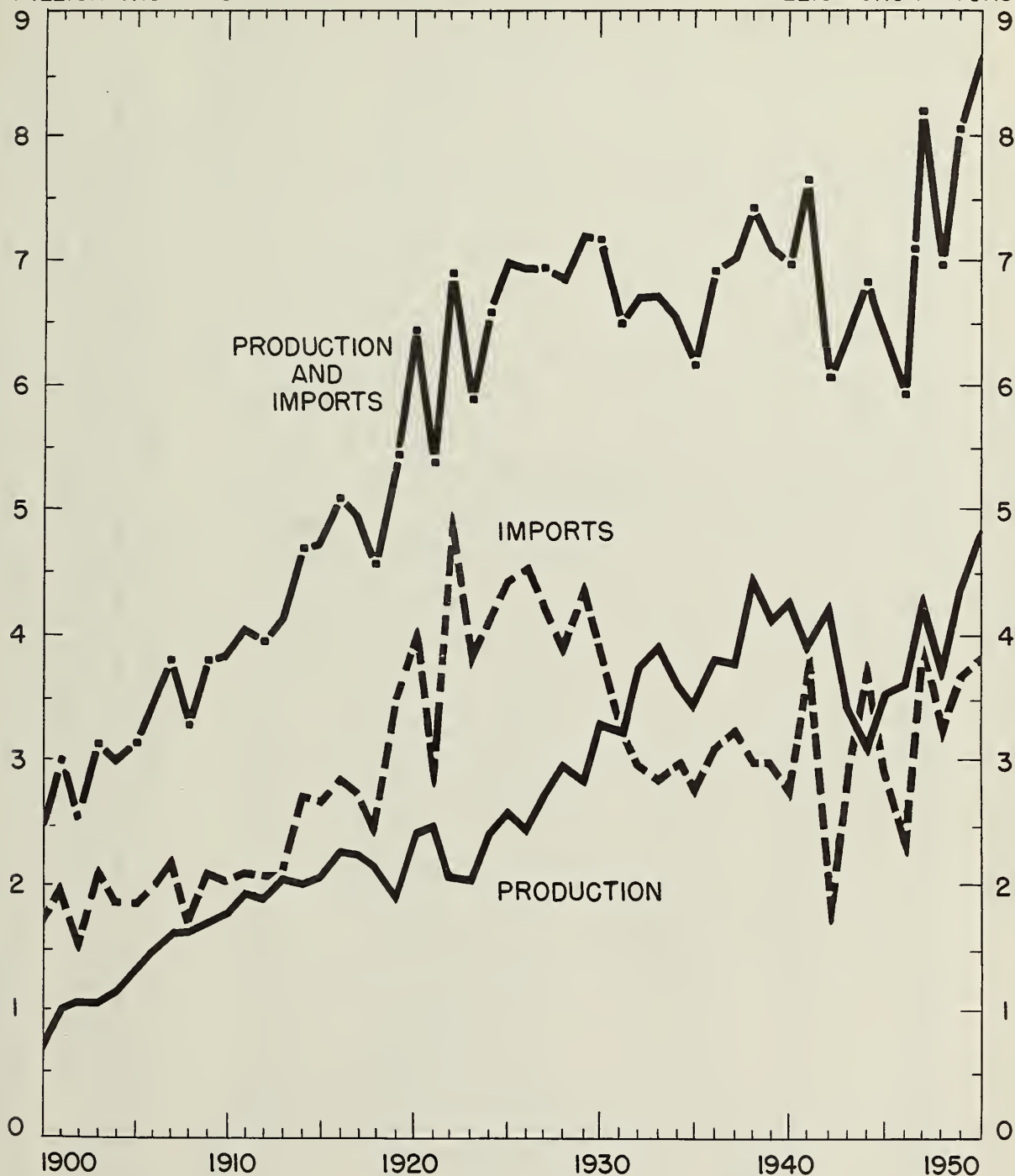
From 1941 to 1947 sugar distribution reflected primarily the war time demand and shortage of supplies. Distribution increased sharply with the termination of controls in 1947, and for the year amounted to 103 pounds per capita (raw value.) It was slightly lower in 1948 and 1949, but rose to 110 pounds (raw value) in 1950, partly because of the buying wave which followed the outbreak of the Korean conflict. (See figure 8.)

It is too soon to determine whether a new upward trend in per capita sugar consumption has started since the end of the shortage. If consideration is given to the use of sugar in making illicit liquor during the 1920's and the large use of corn sweeteners in recent years, it is probable that the total legitimate use of sweeteners has continued upward.

SUGAR: UNITED STATES PRODUCTION AND IMPORTS

MILLION SHORT TONS

MILLION SHORT TONS



U. S. DEPARTMENT OF AGRICULTURE

PRODUCTION AND MARKETING ADMINISTRATION

Figure 6. Total U. S. sugar production and imports increased rapidly until 1929. Since then the upward trend has been modified. Until 1931 imports represented over half of U.S. supplies. Since then domestic production usually has supplied the larger share. Except during the war imports have increased materially from the low point of the 1930's.

REFINED SUGAR PRICES, AND INDEX OF ALL FOOD PRICES, AT WHOLESALE IN THE UNITED STATES ANNUALLY, 1860-1950

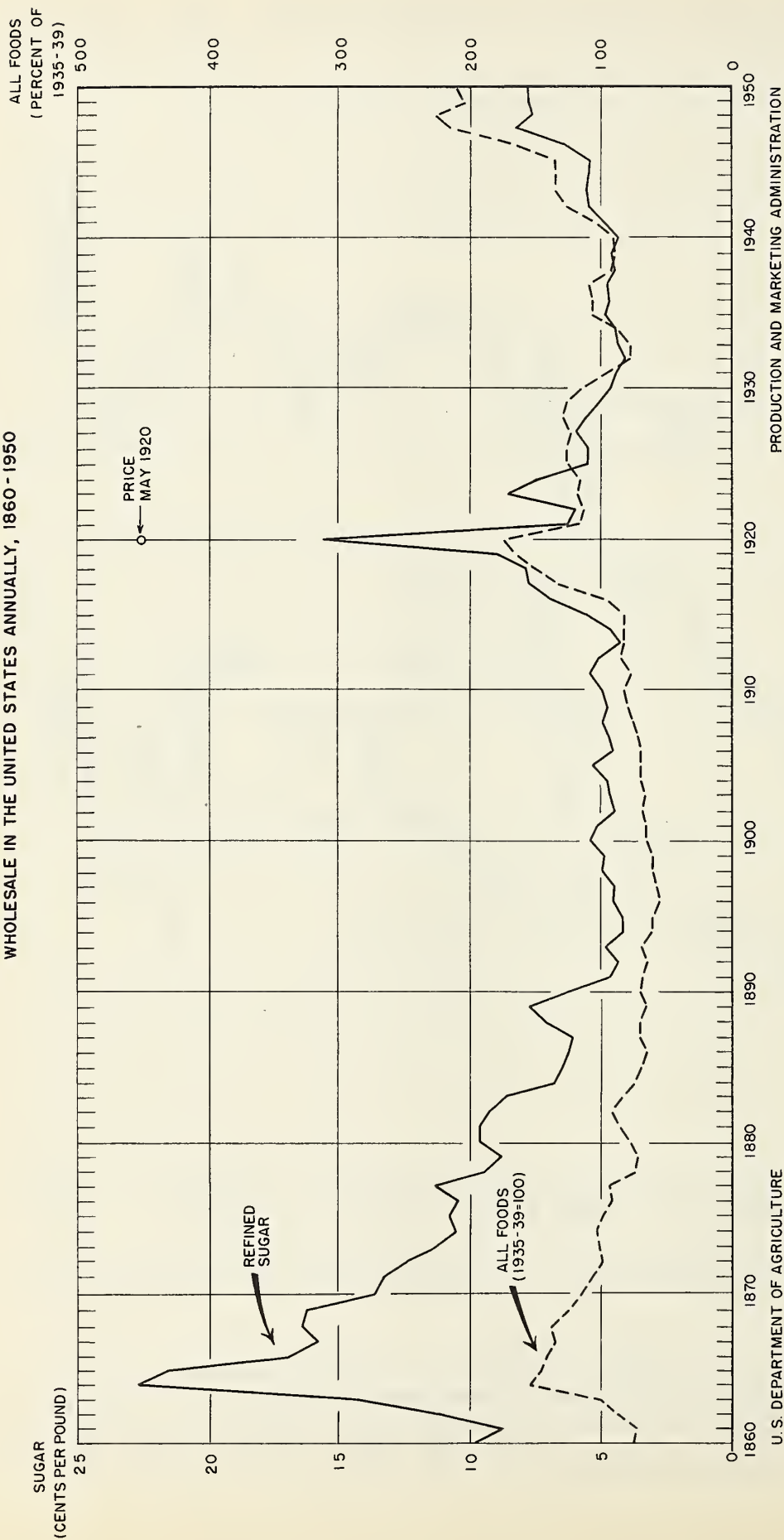


Figure 7. Sugar has become one of the cheapest of all the foods. After declining sharply over the twenty years following the Civil War, its price has remained relatively stable. During World War I sugar prices rose generally with the cost of other foods and in 1920 the famous sugar inflation occurred. During World War II sugar prices rose less than food prices generally.

Data are wholesale refined sugar price, net cash, N. Y., and B.L.S. price index for all foods at wholesale, U.S. (1935-39 = 100)

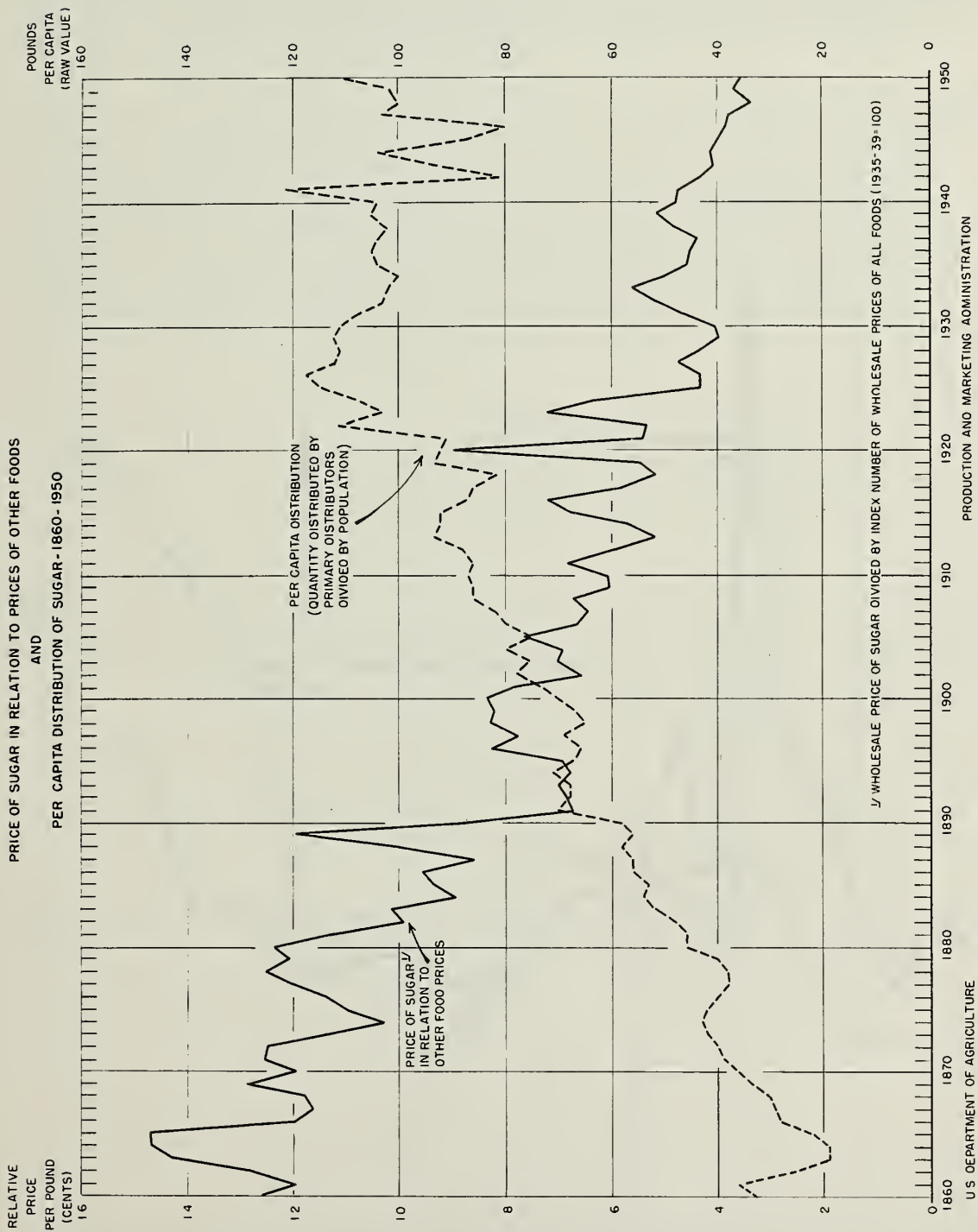


Figure 8. Until 1926 the decline in sugar prices relative to the prices of other foods was accompanied by increased per capita sugar distribution. Since that time the relative decline in sugar prices has continued without an evident increase in per capita distribution. Per capita consumption appeared to be relatively stable in the late 1930's. During the war it depended upon the availability of supplies.

WHOLESALE SUGAR PRICES AND PER CAPITA DISPOSABLE INCOME ANNUALLY 1910-50



Figure 9. Since the depression, sugar prices have risen much less than consumers' disposable income. The divergence has been marked since 1940.

The income of consumers has long been recognized to have an effect on the demand for sugar and sugar-containing products. Per capita disposable income in 1948-50 was on the average about four times its 1910 level, whereas the price of sugar was about one and one half times its 1910 level. (See figure 9.)

During the period 1942-47, inclusive, prices and consumption of sugar were controlled by the Government through ceiling prices and rationing. In comparison with per capita disposable income, the price of sugar in 1945 under price control was the lowest in the history of the United States. Even with the rise in prices of sugar since 1945, sugar prices have been lower in relation to per capita disposable income in the United States than they were at any time prior to the war.

Pre-Sugar Act Protection, and Condition of Sugar in the U.S. and Cuba

Prior to the Sugar Acts, the tariff was the only means used to protect U. S. sugar producers. The sole exception to this was a brief period in the 1890's when sugar was put on the free list and a bounty of two cents per pound was given on domestic production. During the first century of our existence as a nation the tariff on sugar had been a revenue-raising measure. During this period the U. S. Treasury was primarily financed through customs collections, and sugar duties made up about one-fifth of these collections.

The paramount purpose of the sugar tariff shifted to protection in the eighteen-nineties. In the Tariff Act of 1930 the Cuban rate was 2.0 cents and the full duty rate was 2.5 cents per pound.

The inability of the tariff to protect U. S. producers against the chronic over-production and depressed prices which overtook the sugar industry in the early 1930's was pointed out to President Roosevelt by the U.S. Tariff Commission in 1933.

Figure 10, showing U.S. tariff rates on raw sugar, is a simplification of an intricate pattern of tariff rates on different grades of sugar. The figure shows only the effective rates, which were the full duty rates until 1913, and the preferential Cuban rate (not more than 80 percent of the full-duty rate) since then.

Cuba became almost our exclusive regular foreign sugar supplier around 1913. The Philippines, since their independence, have changed from a domestic to a foreign supply area. Free entry is accorded to Philippine quota sugar until 1954 and an annually decreasing preferential rate will apply thereafter, until full-duty status will be attained in 1974.

For some time prior to the enactment of the Jones-Costigan Act, the world and U.S. sugar economies had been in a precarious condition. Depression overtook the world sugar market several years before its effects were felt in the U.S. With the 1924-25 crop, world production began to exceed world consumption, and despite several attempts on the part of Cuba and the other major exporters to curtail output, burdensome carry-overs grew progressively larger. High tariffs stimulated production in protected areas and reduced market outlets for world exporters. At the same time the high internal prices, induced by tariffs and other restrictive practices in many countries, reduced consumption. Between 1924 and 1932, world prices declined from more than four cents per pound to less than one cent.

The depression did not seriously affect the U.S. sugar industry until 1930. As sugar prices fell, total distribution continued its increase to a high point in 1929, and production in U. S. areas continued expansion under tariff protection. In 1930, however, distribution began to decline. Between 1929 and 1933 it fell from 6.5 million to 5.9 million tons. Even this decline did not curtail sugar marketings by U. S. areas. The increase in the tariff on Cuban sugar to 2.0 cents in 1930 resulted in great reductions in marketings from that source, with the slack being taken up by U.S. producers. This encouraged still further expansion in U.S. areas. Between the crops of 1929 and 1933, production in the beet area increased by 61%, the Philippines by 44%, Puerto Rico by 42%, Hawaii and mainland

U.S. RAW SUGAR TARIFF RATES, 1789-1950

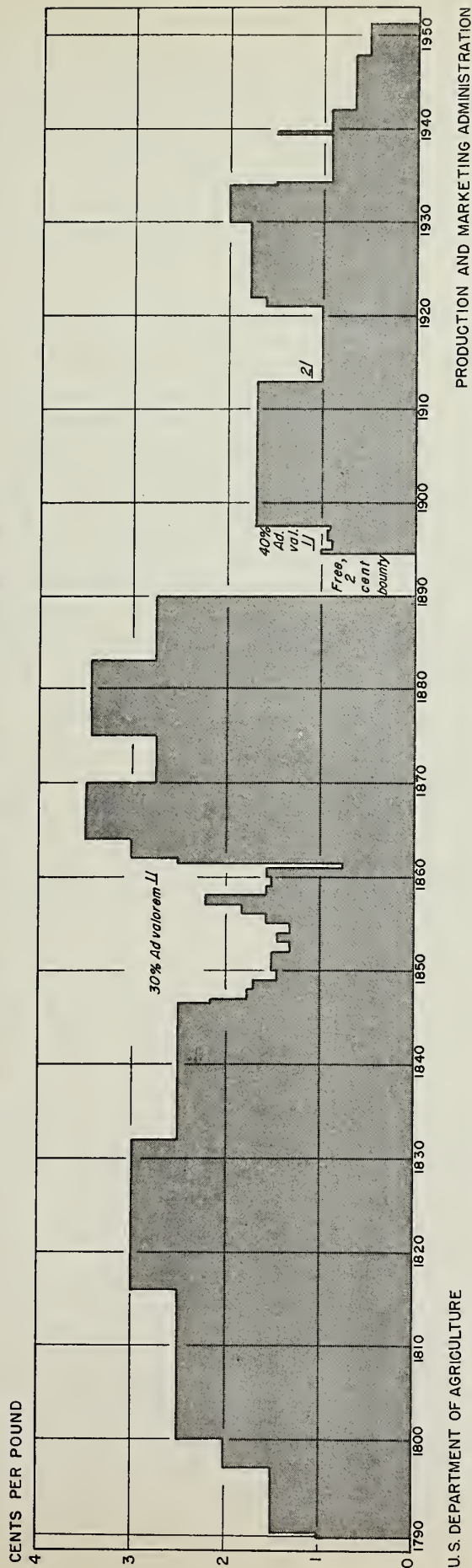


Figure 10. Prior to 1934 the tariffs on sugar ranged generally from 1 to $3\frac{1}{2}$ cents per pound except in the early 1890's when a 2 cent bounty was in effect. Since the enactment of the Jones-Costigan Sugar Act in 1934 the tariff on Cuban sugar has been reduced progressively from 2¢ to $\frac{1}{2}$ ¢ per pound and the full duty rates have been reduced proportionately.

1/ 30% and 40% respectively of raw sugar prices c.i.f. London as reported in Deerr, The History of Sugar, converted to cents per 100 lb.

2/ Cuban rate used since 1914.

Tariff suspended May 1944 to December 1946.

cane each by 15%. However, while the 1930 tariff enabled U. S. producers to increase their marketings, it did not protect them from falling prices. The average price of sugar in New York in 1932 was 2.93 cents per pound, including the two-cent Cuban duty. The price received by producers of sugar beets fell from \$7.14 a ton in 1930 to \$5.13 in 1933. Gradually it became apparent that any price advantage gained by another tariff increase would be more than offset by increased production and heavy carryovers in the domestic areas.

In the years immediately preceding the passage of the Jones-Costigan Act, Cuba was in a critical economic and political condition as her sugar was being crowded out of the U. S., her most important market. From the Treaty of 1903 until shortly before the outbreak of World War I, Cuba had marketed almost all her sugar in the U. S. Under U. S. protection, Cuba had increased her production from less than one million tons in 1902 to nearly three million tons in 1914. During and immediately following World War I, Cuba found a substantial market in Europe, since European beet sugar production had been sharply reduced and imports from Java had been interrupted by the war. In the years 1915-25 nearly one fourth of Cuba's exports went to countries other than the U. S., chiefly to the United Kingdom. Over the same period her market in the U. S. was also expanding. Under these stimuli, Cuban production increased from less than 3 million tons in 1914 to nearly 6 million in 1925.

Beginning with 1926, Cuba's market in Europe was sharply restricted. Europe's beet sugar industry had recovered from the effects of the war, and a new wave of protectionism, which extended to Europe's overseas colonies, resulted in depressing sugar surpluses being held by Cuba and other exporters to the world market. Several attempts on Cuba's part to improve the condition of the world market by limiting her crop were unsuccessful as production in other areas, particularly those enjoying tariff protection, continued to expand.

Cuba maintained her exports to the U. S. at relatively high levels until 1930, when the increase in the U. S. tariff to 2.0 cents became effective. Entries of Cuban sugar into the U. S. fell from 3.6 million tons in 1929 to 1.5 million tons in 1933.

Because of sharply falling prices, Cuba's loss of income from the mid-1920's until the passage of the Jones-Costigan Act was much greater than the quantitative decline in her sugar exports would indicate. The price of sugar in Cuban warehouses fell from an average of 3.35 cents a pound in 1921-25 to 1.70 cent in 1929 and .70 cent in 1932. Cuba's share in the U. S. market was maintained by cutting costs, particularly wages, to meet the successive increases in tariff rates from 1.6 cent in 1921 to 2.0 cent in 1930. Cuba's declining income was reflected in the declining value of her visible imports from the U. S. These fell from a high point of \$404 million in 1920, to \$127 million in 1929, and finally reached the low point of \$23 million in 1932.

Early in 1933 the U. S. Tariff Commission concluded that the protective tariff was no longer an effective instrument for dealing with the sugar problem; that an increase in the tariff would have the effect only of reducing wage rates in Cuba without rendering relief to the domestic

sugar industry; that both the domestic industry and Cuba required price relief; that sugar prices could be raised only by limiting the supply of sugar; and that in the event of the imposition of some type of quota system the duty on Cuban sugar might be reduced thus restoring purchasing power to Cuba. The letter to the President of Robert L. O'Brien, Chairman of the Commission follows:

"April 11, 1933.

"My dear Mr. President:

"In view of the possibility of early action by our Government in regard to tariff bargaining, I venture to send you certain conclusions that have been reached by the Tariff Commission from our study of the sugar industry. We hope to have the complete report ready for submission within a few weeks, but we have thought that an earlier statement of certain facts might be helpful to the administration.

"It is evident from our study that the duty on sugar cannot justly be based on a difference between domestic and foreign costs of production. The situation in Cuba, which is the chief competing foreign country, is such that the higher the American tariff may be the lower are the costs of producing sugar in Cuba.

"Cuba must fix the price at which she sells sugar at a point which will enable her product to enter the American market. The result is that the price has gone down to a point which is disastrous both for American and for Cuban producers. It is evident that no increase of the American tariff can relieve the resulting situation in this country or in Cuba.

"For the reinstatement of comparative prosperity in the domestic industry, and also to such an extent in Cuba as may enable her again to become a customer on a considerable scale for American exports, it is necessary that the price of sugar should be somewhat higher than has prevailed recently.

"To raise the price it will be necessary to limit the supplies of sugar offered for sale in the United States. This cannot be done by an increase of the tariff, but must be done by limiting imports to this country. Such limitation should be imposed not only upon Cuba but likewise upon the Philippine Islands, and it might be extended, under the powers conferred upon the administration through the Farm Relief Act, to the production of sugar in Hawaii, in Puerto Rico, and, if necessary, in the continental United States.

"Should some such quota system meet with the approval of the administration, the duty on Cuban sugar might be reduced on a limited importation by such amount as the Government might find expedient, with a view partly to revenue and partly to the restoration of the purchasing power of Cuba.

"If it be desired, the Tariff Commission is prepared to render assistance in working out such quotas for the various sources of sugar supply as would appear to be most feasible.

"Respectfully,

"(Signed) Robert L. O'Brien,
Chairman

"The President,
"The White House."

Development of the Sugar Act

The first major effort to cope with the deteriorating sugar-price situation domestically was made under the auspices of the Federal Farm Board, which in 1930-31 was attempting to stabilize the market for various farm products by buying and storing some of the surpluses. Sugar beets and sugarcane presented some peculiar problems. A "surplus" in the usual sense did not exist, since the U. S. is a net importer of sugar. Also, since sugar beets and sugarcane cannot be stored for any length of time they could not be purchased and held off the market.

The Federal Farm Board therefore assigned Samuel R. McKelvie, Ex-Governor of Nebraska, to work on the problem. Governor McKelvie arranged a conference of sugar beet growers representing the various producing States. At this conference, representatives of regional grower associations formed a national organization, which is still in existence. Following the conference the Farm Board named a Sugar Beet and Sugarcane Advisory Committee. This Committee met with the Farm Board several times during 1930 and 1931, but primarily because sugarcane and sugar beets were not adapted to the Farm Board's purchase and storage program, no definite plan for sugar crops was undertaken.

In 1933, the Agricultural Adjustment Act was passed, under which the Secretary of Agriculture was directed to raise farm prices and restore farmers' purchasing power by two methods: (1) By restricting production of "basic" farm commodities and making "benefit payments" to producers in return for crop restriction, (2) by restricting sales of farm products through voluntary marketing agreements with distributors and processors.

Although Congress did not make sugar crops "basic" commodities under the AAA until 1934, the Secretary had the power to assist producers under the marketing agreements. In June 1933, Dr. John Lee Coulter, a member of the U. S. Tariff Commission, was appointed to explore the possibility of stabilizing the sugar industry under this authority. Dr. Coulter called a meeting of the entire sugar industry in June 1933, in Washington. Practically all groups having an interest in the U. S. sugar market were represented at this meeting. Working committees were appointed at meetings in Washington during the balance of 1933 and the early months of 1934. From their efforts the sugar stabilization plan evolved and was agreed upon by the various segments of the sugar industry.

The plan included (though in different form) the two most essential provisions later enacted into the Jones-Costigan Act: (1) The consumption estimate; and (2) marketing and import quotas for the various areas supplying the U. S. It differed significantly from the Jones-Costigan Act in that, under the Stabilization Plan, a minimum price for raw sugar would be fixed by a formula; the world price adjusted for freight and insurance from Cuba, plus 2.5 cents (the full-duty tariff rate.)

After consideration of the plan, the Secretary of Agriculture rejected it on the grounds that in that form it would have tended to increase rather than remove the disparity in agriculture's purchasing power. He explained that the bill emphasized unduly the interests of processors, and that farmers would pay more for the sugar they bought as consumers than they would gain as producers from the proposed higher prices. Also, the Government expressed the opinion that, under the plan "no effective control of production was contemplated."

The Sugar Stabilization Plan, although finally rejected, had served to bring about agreement among various claimants for the U. S. market on such controversial matters as the need for quotas for the various areas, and it made possible the later enactment of the Jones-Costigan Act with practically no opposition from the industry.

Using the Stabilization Plan as a point of departure, the Government drafted a new set of proposals which were recommended by the President to Congress early in 1934. The Government's proposals incorporated most of the basic philosophy underlying the Jones-Costigan Act and its successors. To assure a "free exchange" price to farmers, the President recommended amendment of the Agricultural Adjustment Act, making sugarcane and sugar beets "basic" agricultural commodities. This step would enable the Secretary of Agriculture to compensate farmers for compliance with marketing quotas by benefit payments made from processing-tax funds. By shifting reliance for price stability largely from the tariff to quotas, it became possible to extend the benefits to Cuba as well as to American producers. The President's plan also called for an immediate reduction in the Cuban duty from 2.0 to 1.5 cents, and favorable future consideration to be given to increasing the Cuban preference. Finally, implementation of the program was to be achieved through amendment of the Act, which would give the Secretary authority "to license refiners, importers, and handlers to buy and sell sugar from the various producing areas only in proportion which recent marketings of such sugar bear to the total United States consumption." Under this authority it was planned to give Cuba a rather more favorable quota than had been suggested by the industry's Stabilization Plan.

Essential Provisions of the Sugar Acts

The Jones-Costigan Act

The main provisions of the Jones-Costigan Act, which became effective on May 9, 1934, were as follows:

- (1) The determination of annual sugar consumption requirements.
- (2) The use of quotas to adjust sugar marketings from each domestic and foreign area to consumption requirements.
- (3) The adjustment of production in the domestic producing areas to the quota system.
- (4) The inclusion of Sugar beet and sugarcane among the "basic agricultural commodities," the imposition of a processing tax, and the use of the proceeds of this tax for payments to producers.

The broad, basic features of the Jones-Costigan Act have been retained in the Sugar Acts of 1937 and 1948, though details have been somewhat modified by subsequent legislation. The most important legal developments affecting the sugar industry are summarized below.

The Supreme Court in January 1936 banned processing taxes when a part of a production control program (U.S. v. Butler, 297 U.S.1.). In order to clarify the applicability of the Act in view of this decision, the Congress resolved that no further processing, compensating, or floor stocks taxes on sugar were to be levied and that no more contracts should be entered into with producers of sugar beets or sugarcane. Otherwise the Act was to remain in force until December 31, 1937 and the quotas and allotments were ratified. The Secretary was authorized, in allotting marketing quotas, to consider prior allotments, changes in marketing, marketings in 1935, and ability to perform. (Public Resolution No. 109, approved June 19, 1936.)

In the meantime, the Congress had passed the Soil Conservation and Domestic Allotment Act of 1936. This law provided for conservation payments to sugar beet and sugarcane producers who planted soil-conserving crops in addition to their sugar crops.

In the following year, President Roosevelt recommended that Congress enact new legislation embodying the principles of the Jones-Costigan Act. This recommendation resulted in the Sugar Act of 1937. Originally due to expire December 31, 1940, it was successively extended through December 31, 1947, when it was superseded by the Sugar Act of 1948. However, the quota provisions were suspended by Presidential proclamation from September 11, 1939 to January 1, 1940; and again from April 13, 1942 until November 28, 1947.

The Sugar Act of 1937 provided that the Secretary of Agriculture should estimate the annual consumption requirements of the continental United States and allot as quotas to each domestic and foreign area specific percentages of the total. These percentages, which totalled 55.59 percent for the

domestic areas and 44.41 percent for the Philippines, Cuba and other foreign suppliers, were based on the shares each had contributed to the U. S. market in certain "representative years." In establishing quotas on a percentage basis, the Secretary was to observe the following limitations:

The quotas to domestic areas, exclusive of the Philippines, had to be not less than 3,715,000 short tons and the Philippine quota had to be not less than the duty-free quota under the Philippine Independence Act. Provisions were made for quota revisions and reallocations, for direct-consumption sugar quotas, and for local consumption quotas in Hawaii and Puerto Rico.

If necessary for the purposes of the Act, quotas might be allotted to persons who market or import sugar.

The Act imposed an excise tax at the rate of 50 cents per 100 pounds of sugar, raw value, and an import compensating tax at the same rate. It provided for conditional payments to producers at a basic rate of 60 cents per 100 pounds of recoverable sugar with downward gradations for large producers.

The conditions required to qualify a producer for payments generally involved the elimination of child labor (other than that of the immediate members of the producer's family), the payment of fair and reasonable wages, the preservation and maintenance of soil fertility, marketing of no more than the farm's proportionate share of the quota of the area in which it was located, and, in the case of producer-processors, the payment of fair and reasonable prices for the sugar crops produced from other producers. Abandonment and deficiency payments in the event of natural disaster were also authorized.

A first amendment to the Act modified the child labor provisions. Growers employing child labor were no longer declared ineligible for conditional payments. Instead, a deduction from the payments to such growers was provided.

Another minor liberalization of the conditional payments provisions and a modification of the prescribed method of estimating sugar consumption requirements formed a second amendment to the Act.

The specific restrictions on the shipment of direct-consumption (refined) sugar from Hawaii and Puerto Rico to the mainland were permitted to expire on February 29, 1940, but were later re-enacted when the Act was extended through 1941.

The basic rate of conditional payments was increased from 60 to 80 cents per 100 pounds of sugar, the system of deductions from this rate in the case of larger producers was changed, and the payment provisions were extended to the Virgin Islands in 1941, when the Act was extended through 1944. After two more extensions of the Act (in 1944 and in 1946) the Sugar Act of 1948 superseded the 1937 legislation.

The Sugar Act of 1948

The Sugar Act of 1948, like its predecessors, provides for the determination of sugar consumption requirements. It establishes marketing quotas for domestic production areas and import quotas for foreign countries. Finally, it continues the excise tax and provides for payments to domestic sugarcane and sugar beet growers conditioned on their compliance with the requirements of the act.

Title II, "Quota Provisions" establishes that sugar requirements of consumers in the continental United States for the following year are to be determined by the Secretary of Agriculture during each December. This determination may be revised during the course of the year. The Secretary must be guided in his determination by the amount of sugar distributed during the 12-month period ending October 31 next preceding his determination, by the state of sugar inventories, by changes in population and demand conditions, and by the effect of his determination on the relationship between refined sugar prices and the general cost of living as compared with the relationship that prevailed during 1947 prior to the termination of sugar price control.

In establishing quotas under the Sugar Act of 1948, the Congress deviated from the method it had followed in the Act of 1937. The earlier Act expressed as percentages of the total consumption requirements the shares which each area, domestic and foreign, should be allowed to market. The Act of 1948, on the other hand, established statutory quotas in terms of absolute quantities for the domestic areas and the Philippines, while the shares of Cuba and other foreign countries were expressed as a residual.

This naturally gives the advantage of increased U. S. consumption to foreign areas (chiefly Cuba) while they also bear the first incidence of reduced consumption.

Quotas provided for the domestic areas are as follows:

<u>Producing Area</u>	<u>Short tons, raw value</u>
Continental United States	
Beet sugar	1,800,000
Cane sugar	500,000
Hawaii	1,052,000
Puerto Rico	910,000
Virgin Islands	6,000
Total	4,268,000

As specified in the Philippines Trade Act of 1946, the Republic of the Philippines enjoys a quota of 952,000 short tons of sugar in actually entered weight (approximately 982,000 short tons, raw value). The Cuban quota is 98.64 percent of the excess in requirements over the above amounts. However, it must be at least equal to the Cuban quota under the Sugar Act of 1937 (28.6 percent of sugar requirements). If necessary, the quotas of other areas must be proportionately reduced in order to guarantee that minimum quota for Cuba.

Other foreign countries are allotted 1.36 percent of the excess of requirements over the domestic and Philippine quotas. Proration among these countries is made in proportion to the quotas assigned to them in 1936. Under this proration, approximately five-sixths of the total is allotted to Peru, Nicaragua, San Salvador, the Dominican Republic, and Mexico. The countries are listed in decreasing order of their quotas, Peru holding about one-fifth and Mexico one-eighth of the total quota assigned to other foreign countries.

This basic pattern of quota allocation is supplemented in five respects, the terms of which are chiefly extensions (or modifications) of provisions in the Sugar Act of 1937:

- (1) If any domestic area or any foreign country cannot fill its quota, provision is made for reallocation of the deficit to other areas or countries. The system of reallocation under the Sugar Act of 1948 is more favorable to Cuba than it was under the Act of 1937 as Cuba now receives 95 percent of any Philippine deficit.
- (2) The Secretary must determine local consumption quotas for Hawaii and Puerto Rico.
- (3) If the successful administration of the quota scheme so requires, the Secretary must prorate the area and country quotas among persons who market or import sugar. These allotments are to be based on a consideration of the processings of sugar on which conditional payments are made, on past marketings or importations of each person, and on the ability of each person to market or import his portion of the quota. Detailed provisions are made for the appeal to the United States Court of Appeals for the District of Columbia against these allotments by aggrieved applicants.
- (4) Only small proportions of the quotas of the principal off-shore supply areas, domestic and foreign, are permitted to be brought into the continental United States as direct-consumption sugar, i.e., sugar requiring no further refining or other improving process.
- (5) Liquid sugar forms part of the sugar quota in the case of domestic areas. Liquid sugar from abroad is defined as sugar principally not of crystalline structure which contains soluble non-sugar solids equal to not more than 6 percent of the total soluble solids. Only Cuba and the Dominican Republic are assigned liquid sugar quotas.

Sugar and liquid sugar used for re-exportation, distillation, or live-stock feed is exempted from the quota limitations.

Under Title IV, the quota provisions may be suspended by Presidential proclamation in case of a national emergency with respect to sugar.

Title III, "Conditional Payment Provisions," provides for benefit payments to domestic growers of sugarcane or sugar beets. The basic rate of payment is 80 cents per hundred pounds of sugar, raw value. It

applies to the first 350 short tons of sugar, raw value, produced on a farm. The base rate is reduced progressively to a minimum of 30 cents per hundred pounds of sugar produced in excess of 30,000 short tons on the farm.

Payment is made only to farmers who have not marketed or processed sugar beets or sugarcane in excess of their proportionate shares in the applicable area quota. These proportionate shares are to be determined by the Secretary. In his determination he may consider, for each farm, past production and ability to produce sugar, and he is to protect the interests of new and small producers. Payment is made only for sugar produced as part of the proportionate share of each farm in the applicable area quota.

Full payment is furthermore conditioned on the absence of child labor in the production of the sugarcane or sugar beets in question. Adolescents between the ages of 14 and 16 must not be employed in excess of 8 hours a day. Children of the owner of at least 40 percent of the crop are exempted from these provisions. Disregard of these provisions, where applicable, is penalized with a deduction of \$10 from payments for each child and for each day during which he was employed.

Employer-producers must pay their labor fair wages as determined by the Secretary. Non-compliance results in the deduction from payments of the funds required fully to remunerate underpaid laborers.

Processor-producers must pay other beet and cane producers, from whom they buy, fair prices as determined by the Secretary. Non-compliance makes a processor-producer ineligible to receive payments.

Conditional payments are also authorized in case of crop abandonment. Such payments are to be made on one-third of the normal commercial sugar production of the bona fide abandoned area. Payments in case of crop deficiencies due to natural disasters may be made on the difference of 80 percent of the normal commercial sugar production and the actual yield obtained.

The condition relating to the preservation and maintenance of soil fertility stipulated in the 1937 Act is not contained in the 1948 Act.

Experience Under the Sugar Acts

The Sugar Act of 1948 and the predecessor acts have operated to the benefit of many groups which participate in the production, processing, and consumption of sugar for the U. S. market. Incomes of sugar beet and sugarcane growers have been substantially increased, as have wages of field workers in all U. S. areas. Sugar prices paid by the consumer have remained moderate. Increases in domestic production have been restricted but domestic production has not been permanently reduced. The benefits enjoyed by U. S. producers under the Sugar Acts have been progressively extended to the foreign countries, principally Cuba, which market sugar in the U. S.

Growers' Income

Marketing quotas imposed in 1934 under authority of the Jones-Costigan amendment to the Agricultural Adjustment Act of 1933 prevented excess supplies of sugar from entering the American market. However, surplus stocks, particularly heavy in the Philippines and Puerto Rico, overshadowed the market and kept prices depressed. In 1935, production allotments were added to the marketing quotas in order to reduce stocks to the quantities needed to fill the quotas. In Puerto Rico and the Philippines, production was cut below the marketing quotas in order to absorb the heavy surpluses in storage. Domestic and insular sugar crops were reduced thirty percent in 1935 and the price of raws rose from \$2.80 per cwt. in February 1935 to over \$3.80 by the end of that year. By the end of 1936, production allotments had reduced supplies to quota requirements. In that year, domestic and insular production was allowed to rise about 16 percent, mainly in Puerto Rico and the Philippines where production had earlier been cut below the marketing quotas.

Although refined sugar prices in 1940 had receded to their 1933 level, mainland growers' income per ton of cane (including Sugar Act payments) had risen 19 percent and their income per ton of sugar beets, 30 percent. By 1950, the price of refined sugar had risen 82 percent above the 1933 level, but mainland growers' income per ton of cane had increased 184 percent, and per ton of beets, 160 percent. (See figure 11 giving comparisons based on 1935-39.)

Growers now obtain a much larger proportion of the consumer's sugar dollar, largely because of the more stabilized conditions under which the industry operates, and because of the continued efforts on the part of sugar mills and refineries to improve their processing efficiency. As a result of these conditions, mill and refinery costs have not reflected the full impact of the general price inflation which has occurred in the last 15 years. Processors generally have operated profitably and at the same time have been able to increase substantially the proportion of total sales income paid to growers for sugarcane and sugar beets.

Sugar Beets

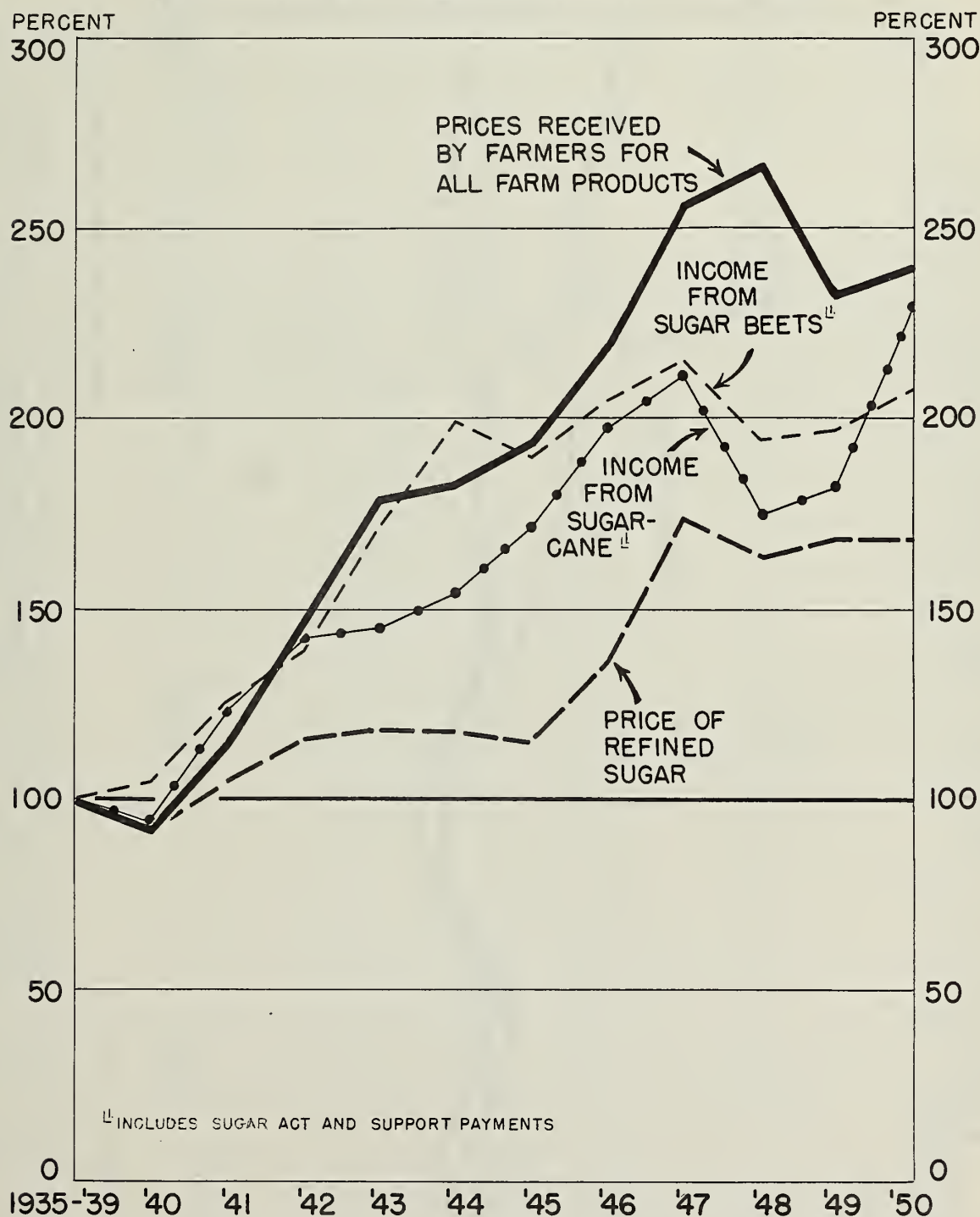
Sugar beet growers are paid for their product a percentage of the net proceeds realized from the sale of beet sugar (gross sales less marketing expenses). In the North Central States, usually referred to as the Eastern beet region, they also share in the net proceeds from the sale of molasses and dried beet pulp. There, the sharing relationship has been 50 percent to the processor and 50 percent to the grower throughout the period covered by the several Sugar Acts. In all other parts of the country, where approximately 80 percent of the beet sugar is produced and where the sharing relationship for beets of a constant quality is based solely upon the net proceeds from sugar, terms of the sugar beet purchase contracts have been altered several times during the last 15 years. In 1935 the contract was changed to increase the growers' share of the first \$4.50 per cwt. of net proceeds. As sugar prices did not reach that level until the outbreak of World War II, the net result was an increase in the price paid for sugar beets. In 1941, 1943, and 1948, the contracts were again altered. Essentially, the changes have given greater protection to the processor at low sugar prices and greater returns to the grower as prices rise. Higher sugar prices of late years have thus given the grower increasing returns relative to those of the processor. In 1949, on a national average basis, growers received 56 percent of net proceeds from the sale of refined beet sugar. In 1933 they had received only 47 percent. (See figure 12.)

Louisiana Sugarcane

Louisiana mills purchase sugarcane on the basis of its recoverable sucrose content and average sugar prices, either for the week or for the season. The recoverable sucrose content is determined by laboratory methods. Accordingly, low recovery rates on the part of the mill tend to reduce the mill's share of sugar proceeds and high rates tend to increase the mill's share. Recovery and sharing relationships fluctuate somewhat from year to year. In 1933 Louisiana growers received 64 percent of the net proceeds from the sale of raw sugar. They received a considerably smaller percentage in all but one of the remaining years prior to World War II, because of a provision under which the price of sugarcane was reduced when sugar prices fell below \$3.50 per cwt. Growers' income from sugarcane did not fall in like manner, however, since Sugar Act payments roughly offset the reduction in cane prices.

Since 1940, raw sugar prices have exceeded \$3.50, thus making the reduction provision of the contract inoperative. In 1946, contracts were changed to increase slightly the growers' share of proceeds. Subsequent changes have been minor in their overall effect. In 1950, growers received 67 percent of proceeds from the sale of sugar. (See figure 13.)

SUGAR PRICES AND GROWERS' INCOME FROM MAINLAND SUGAR BEETS AND SUGARCANE COMPARED WITH PRICES RECEIVED BY FARMERS

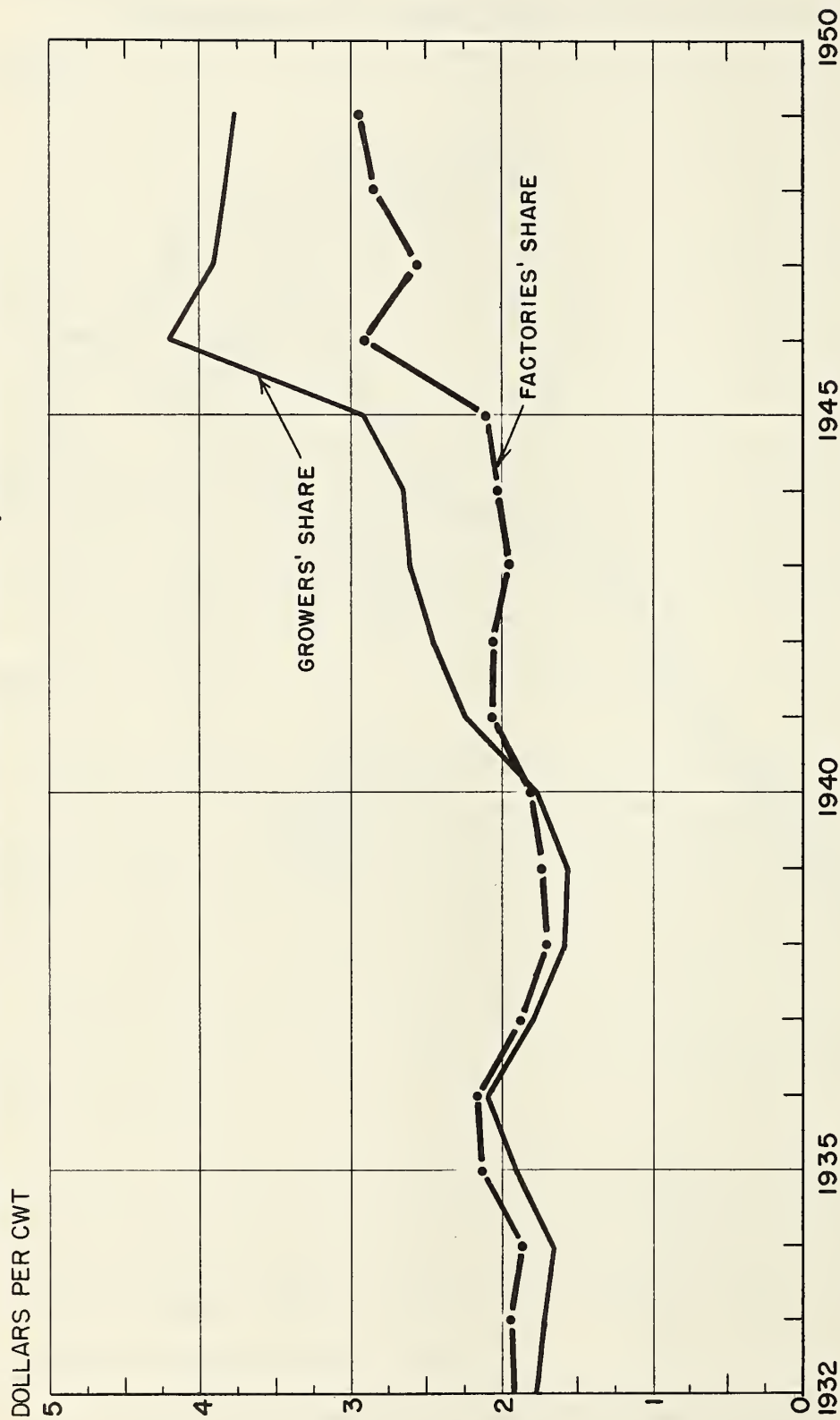


U.S. DEPARTMENT OF AGRICULTURE

PRODUCTION AND MARKETING ADMINISTRATION

Figure 11. Although growers' income from sugarcane and sugar beets has not risen as rapidly as the prices received by farmers for all farm products, it has risen at a much higher rate than the price of refined sugar. This indicates that the farmer is now receiving a larger percentage of the sugar dollar.

DIVISION BETWEEN GROWERS AND FACTORIES OF THE NET PROCEEDS FROM SALE OF REFINED BEET SUGAR, UNITED STATES



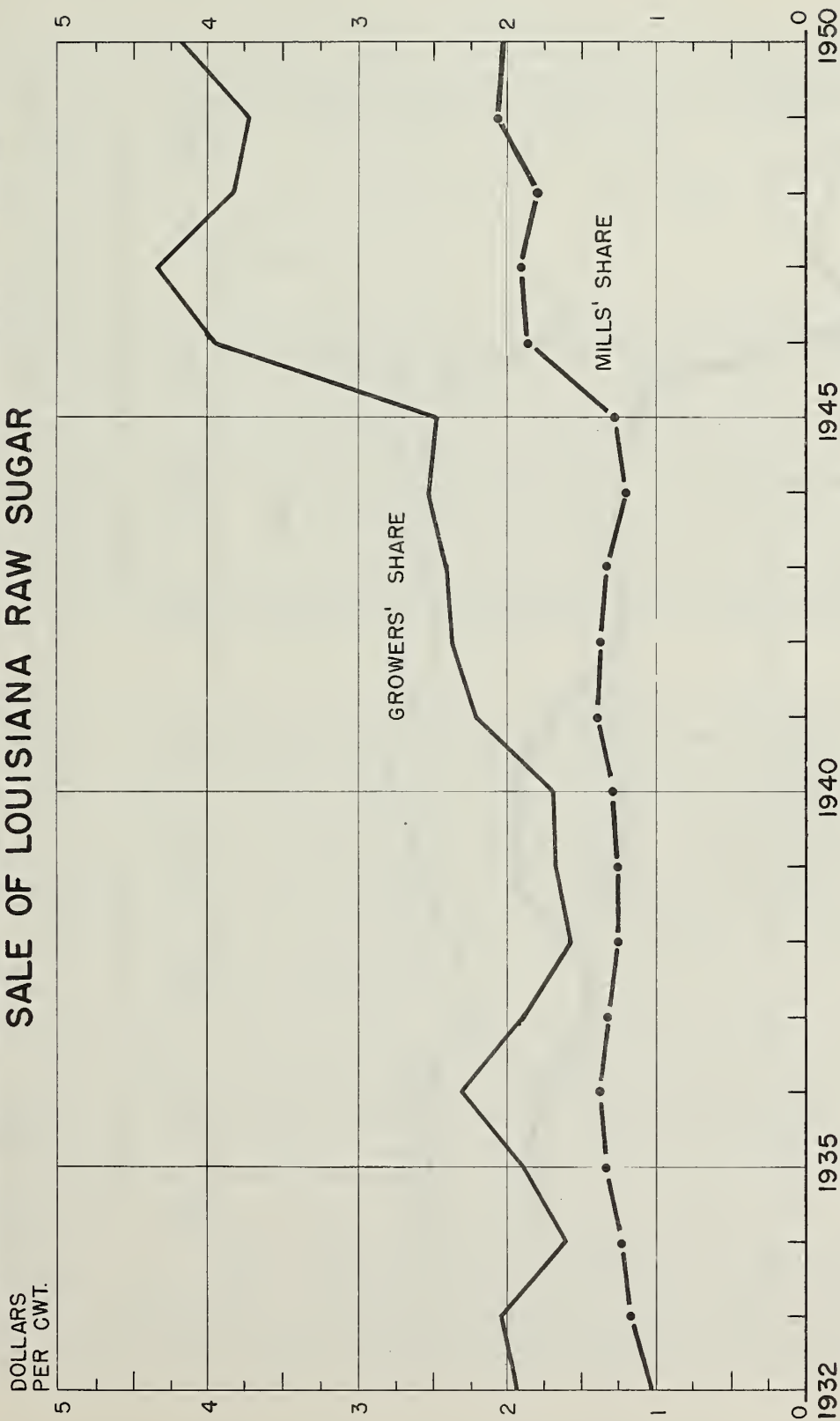
U. S. DEPARTMENT OF AGRICULTURE

PRODUCTION AND MARKETING ADMINISTRATION

Figure 12. Until 1940 the sugar beet factories received a slightly larger share of the consumers' sugar dollar than the growers. During the war years the growers' income increased by 50 percent, while the factories' income remained almost constant. The growers now receive substantially more than the factories.

Net proceeds and payments to growers as reported by processors.

DIVISION BETWEEN GROWERS AND MILLS OF PROCEEDS FROM SALE OF LOUISIANA RAW SUGAR



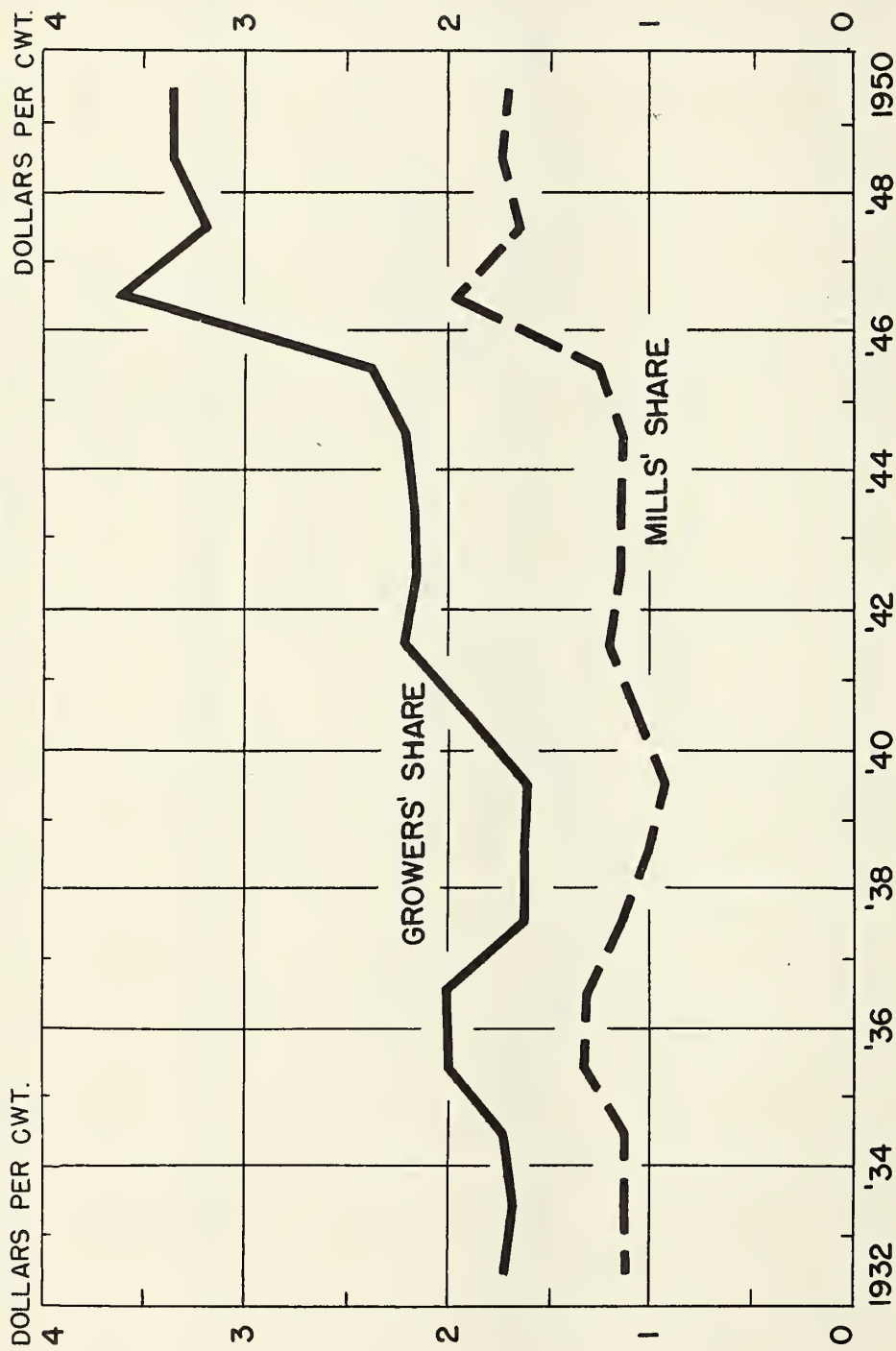
U.S. DEPARTMENT OF AGRICULTURE

PRODUCTION AND MARKETING ADMINISTRATION

Figure 13. In 1950, sugarcane growers received over twice as large a share of the proceeds from the sale of Louisiana raw sugar as did the mills. The growers' share has increased greatly since 1940.

Based on average price during settlement period and not on actual proceeds received by mills.

DIVISION BETWEEN GROWERS AND MILLS OF NET PROCEEDS FROM SALE OF PUERTO RICAN RAW SUGAR



U.S. DEPARTMENT OF AGRICULTURE

PRODUCTION AND MARKETING ADMINISTRATION

Figure 14. Since 1939, the growers' share of net proceeds from the sale of Puerto Rican raw sugar has increased sharply. The mills' share has increased less. In 1950 the growers' share was nearly twice the mills' share.

Based on average price during harvest and not actual proceeds received by mills.

Puerto Rican Sugarcane

Puerto Rican growers now receive approximately two-thirds of the net proceeds from the sale of raw sugar. When the Jones-Costigan amendment was enacted, the grower's share had been 60 percent of the sugar recovered from his cane. In 1938, 1943, and 1947, contracts were changed to increase the grower's percentage. Under the terms of contracts now in existence, growers receive from 63 to 67½ percent of the sugar, the higher percentage applying to cane of a high sucrose content. (See figure 14.)

Wages Paid to Field Workers

To qualify for benefit payments under the Sugar Act, producers of sugarcane and sugar beets are required to pay wages to their field workers at rates not less than those determined annually by the Secretary of Agriculture to be fair and reasonable. Minimum wage rates of field workers in all domestic areas have almost quadrupled in the 15 years since 1934. During the same period, the cost of food and clothing has slightly more than doubled. Without question the standard of living of field workers has been substantially improved. It is also interesting to note that these wages are paid by growers whose gross income per ton of sugarcane or sugar beets has only slightly more than doubled during the same period of time. Improved methods of sugarcane and sugar beet production, both as to mechanization and as to farming practices, have made this record possible. (See figure 15.)

Minimum wage rate increases have varied considerably from area to area. In Puerto Rico, Louisiana, and Florida, the minimum rates have tripled; in the Virgin Islands, where the rate was extremely low in 1934, it has since that time quadrupled; and in Hawaii, it has increased more than 5-fold. Hawaii, of course, is the area where the greatest strides in mechanized farming have occurred. Although the International Longshoremen and Warehousemen's Union, which represents the Hawaiian sugarcane field workers, has pressed strongly for wage increases, these demands could not have been met had it not been for the remarkable progress achieved in mechanized farming. (See figures 16 and 17.)

Average earnings of field workers exceed minimum wage rates in each of the areas for a number of reasons, such as the inclusion of overtime premium payments, task work premium payments, higher basic wage rates paid by some or all producers, and higher rates paid for specialized skills. In Louisiana, Puerto Rico, and the Virgin Islands, average earnings exceed the minimum rates by relatively small amounts. In the other areas, earnings exceed minimum wage rates by from 15 to 35 percent. (See figure 18.)

There is rather a close relationship between average prevailing wage rates and labor requirements. In Hawaii, where the highest wages are paid, man-hour requirements per ton of recoverable sugar are lower than in any other domestic area. Excluding the Virgin Islands, wage rates are lower

in Puerto Rico than in any other domestic area and man-hour requirements are higher. Puerto Rico required 148,000 field workers in 1949 to produce a 1,277,000-ton crop of sugar, whereas Hawaii used only 13,750 to produce 956,000 tons. In view of Puerto Rico's larger population, and inadequate employment opportunities, a rapid change to mechanized methods of sugarcane production could cause additional unemployment. (See figure 19.)

Sugar Prices and Consumption

The wholesale net cash price of refined sugar at New York rose from 4.32 cents a pound in 1933 to 7.84 cents in 1950, an increase of about 80 percent. The great majority of this rise has occurred since 1945. Between 1933 and 1935, sugar prices rose about 12 percent, then gradually drifted back to the 1933 level over the next five years, so that in 1940 they were at the same level as in 1933. In the next two years, they rose 25 percent, and remained about at that level through 1945.

The stability in sugar prices from 1942 to 1945 was the result of war-time controls and consumer subsidies. Under the Cuban-crop purchase programs the Commodity Credit Corporation imported sugar without paying the tariff. In addition the Corporation sold at losses and absorbed costs which involved expenditures by it of \$133 million in order to obtain supplies and keep down costs to consumers. In 1946 and 1947, when costs rose and the subsidy programs were brought to an end, sugar prices rose sharply. Sugar prices declined in 1948, and then showed small increases in 1949 and 1950. (See figure 31.)

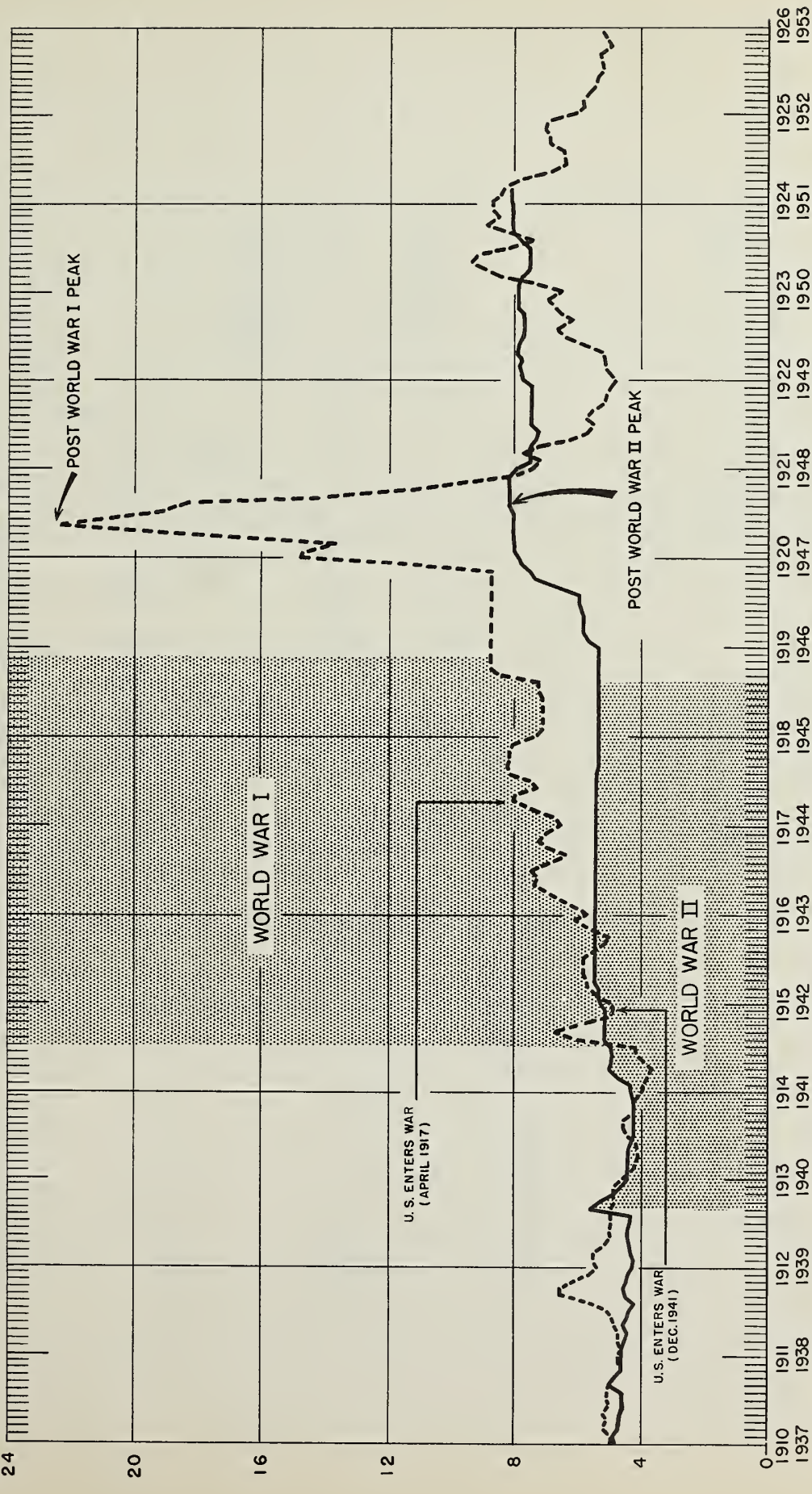
Other than the rapid increases in 1946 and 1947, refined sugar prices under the Sugar Acts have been noted for their stability. This stability is particularly marked when the rise in sugar prices since 1945 is compared with the rise in the price of all foods. (See figure 8 above.)

Total sugar consumption increased from 6.1 million tons in 1934 to around 7.9 million tons in 1950, or by 30 percent. Total consumption in 1934 (the year during which the Jones-Costigan Act became effective) was at its lowest point in ten years. In 1935 it rose sharply, and remained fairly steady until 1941, when it rose again. During the war years consumption was curtailed because of wartime needs, shortages, and shipping difficulties. In 1948, the first full year following the termination of controls, total consumption slightly exceeded the 1941 level, and has been increasing gradually since then.

It is too soon to determine the nature of the postwar trend in per capita sugar consumption. Average per capita consumption since the end of sugar controls in 1947 has probably been at about the prewar level. For short periods, however, figures on distribution by primary distributors (refiners, beet processors, mainland cane mills, and importers) can differ considerably from household consumption and industrial usage. The sharp increase in sugar distribution in 1950 undoubtedly reflected a replenishment of stocks

REFINED SUGAR PRICES IN THE TWO WORLD WARS AND POST WAR PERIODS

CENTS PER POUND
(MONTHLY AVERAGE WHOLESALE PRICE, NEW YORK, NET CASH INCLUDING TAX)



U. S. DEPARTMENT OF AGRICULTURE

PRODUCTION AND MARKETING ADMINISTRATION

Figure 31. Sugar prices were stabilized at lower levels during World War II than during World War I. Premature decontrol following World War I led to the inflation of 1920.

MINIMUM WAGE RATES OF FIELD WORKERS IN RELATION TO
GROWERS' INCOME AND TO COST OF FOOD AND CLOTHING
AVERAGE ALL DOMESTIC SUGAR PRODUCING AREAS

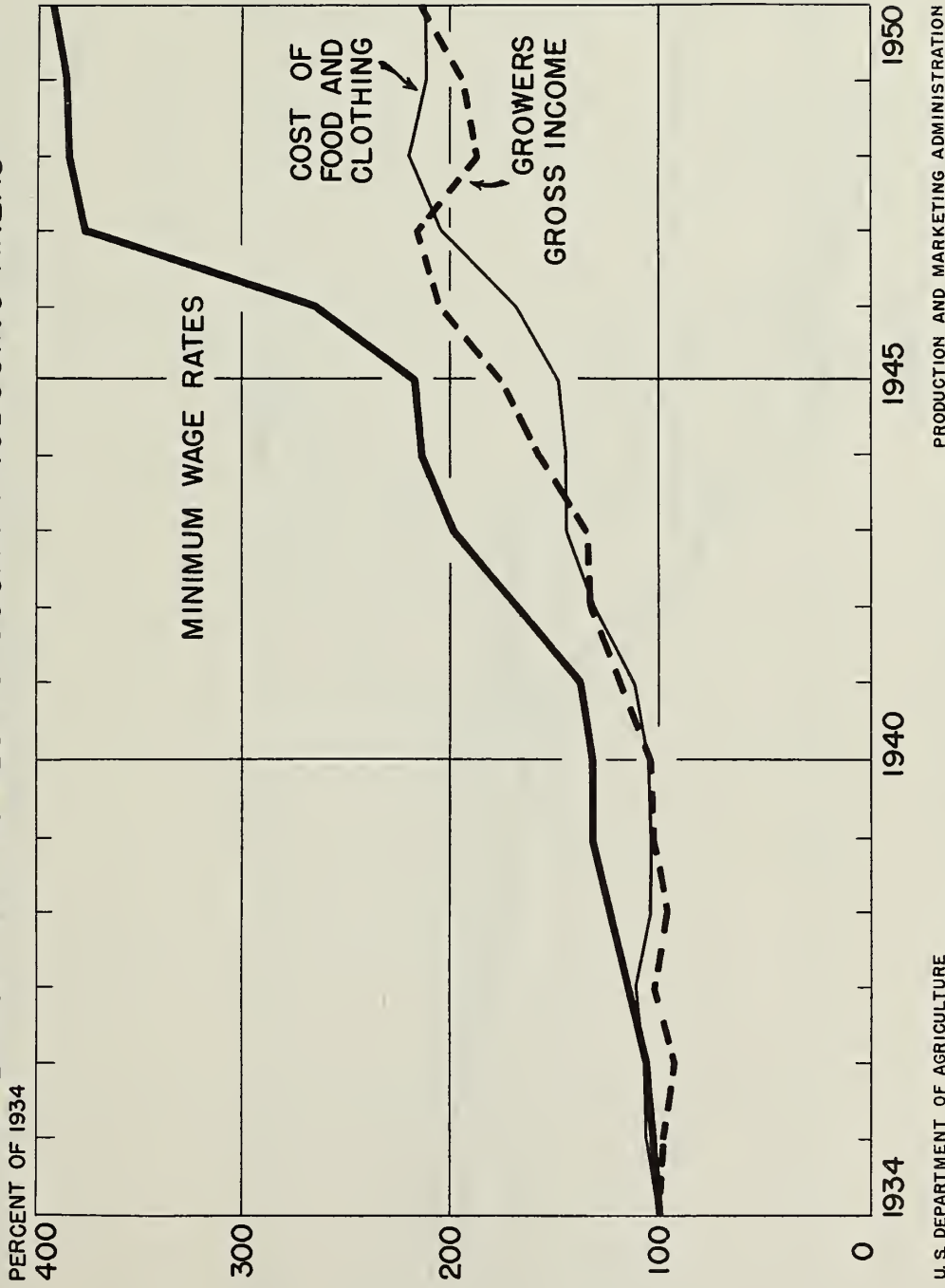
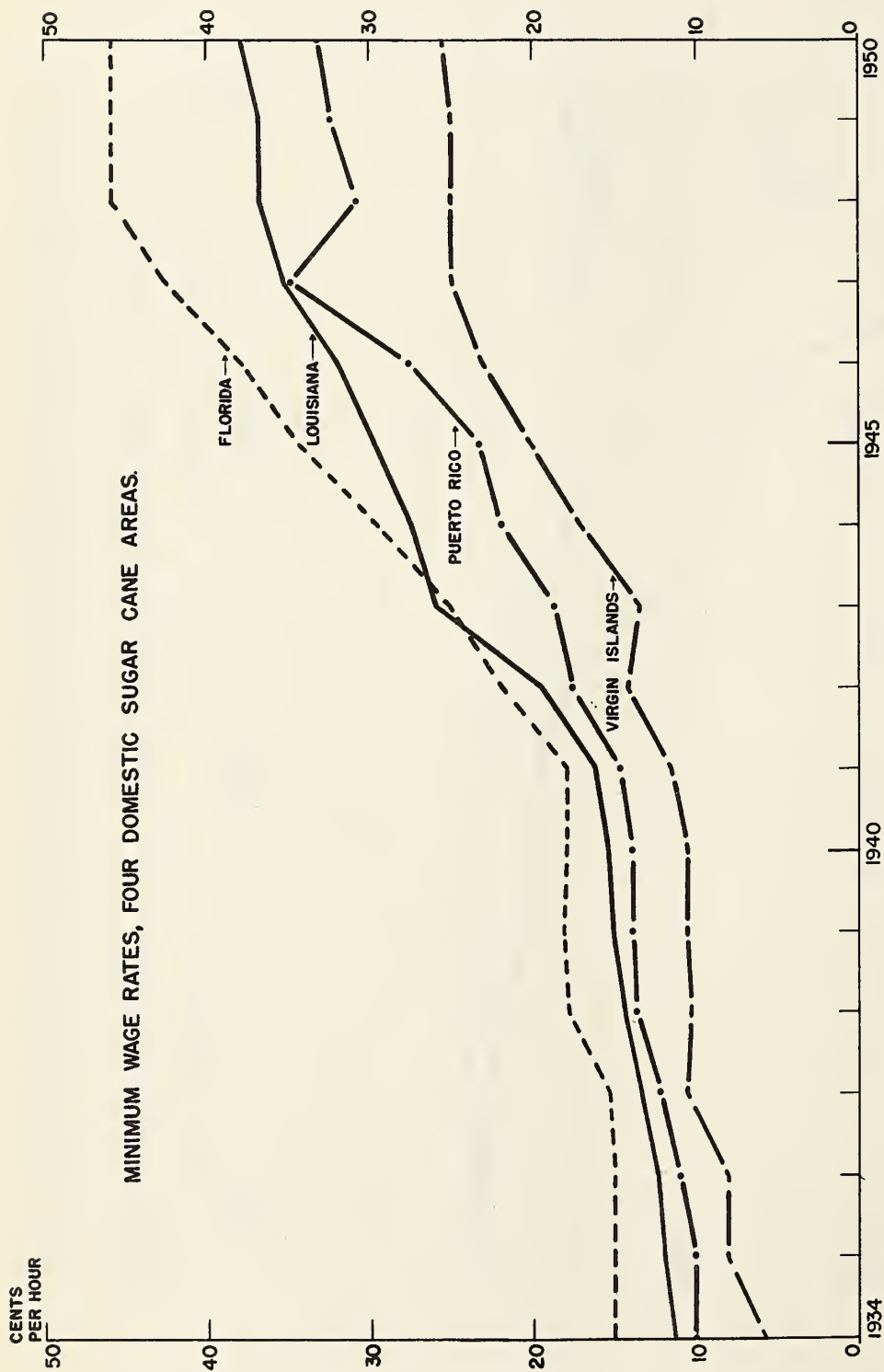


Figure 15. Minimum wage rates to field workers established under authority of the Sugar Act have increased much more than growers' gross income or the cost to workers of food and clothing.

Wage and income data are averages of all domestic sugar producing areas weighted by tons of sugar beets and sugarcane produced. Administrative, field supervisory and employee-service workers excluded. Food and clothing indexes are from U. S. consumers' price index.



UNITED STATES DEPARTMENT OF AGRICULTURE

PRODUCTION AND MARKETING ADMINISTRATION

Figure 16. Minimum wage rates as prescribed under authority of the Sugar Act have increased substantially in all four of these sugarcane areas. Wages are highest in the newest area, Florida. The ranking of the four areas has remained constant under the Sugar Acts.

Administrative, field supervisory and employee-service workers excluded.

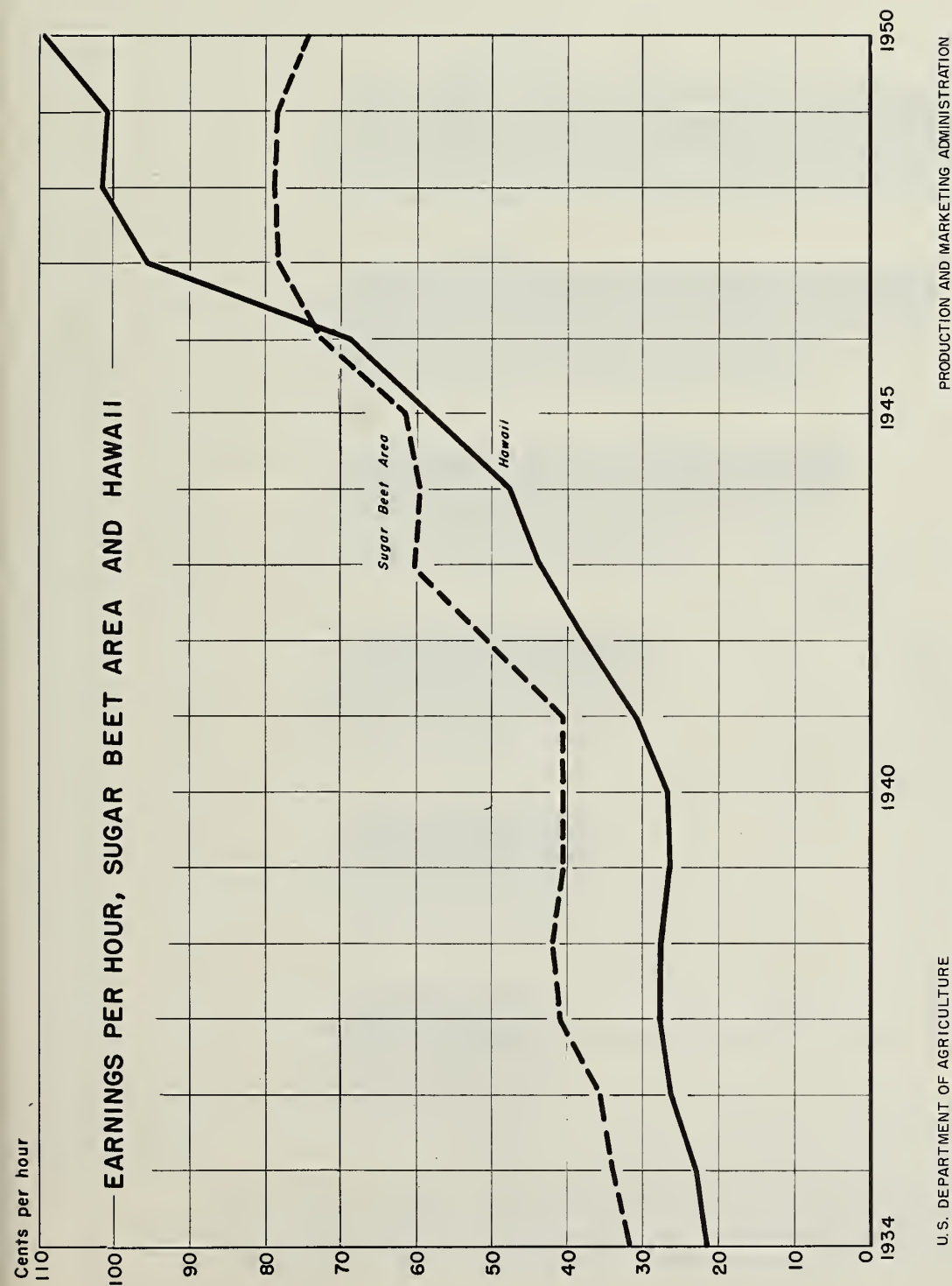
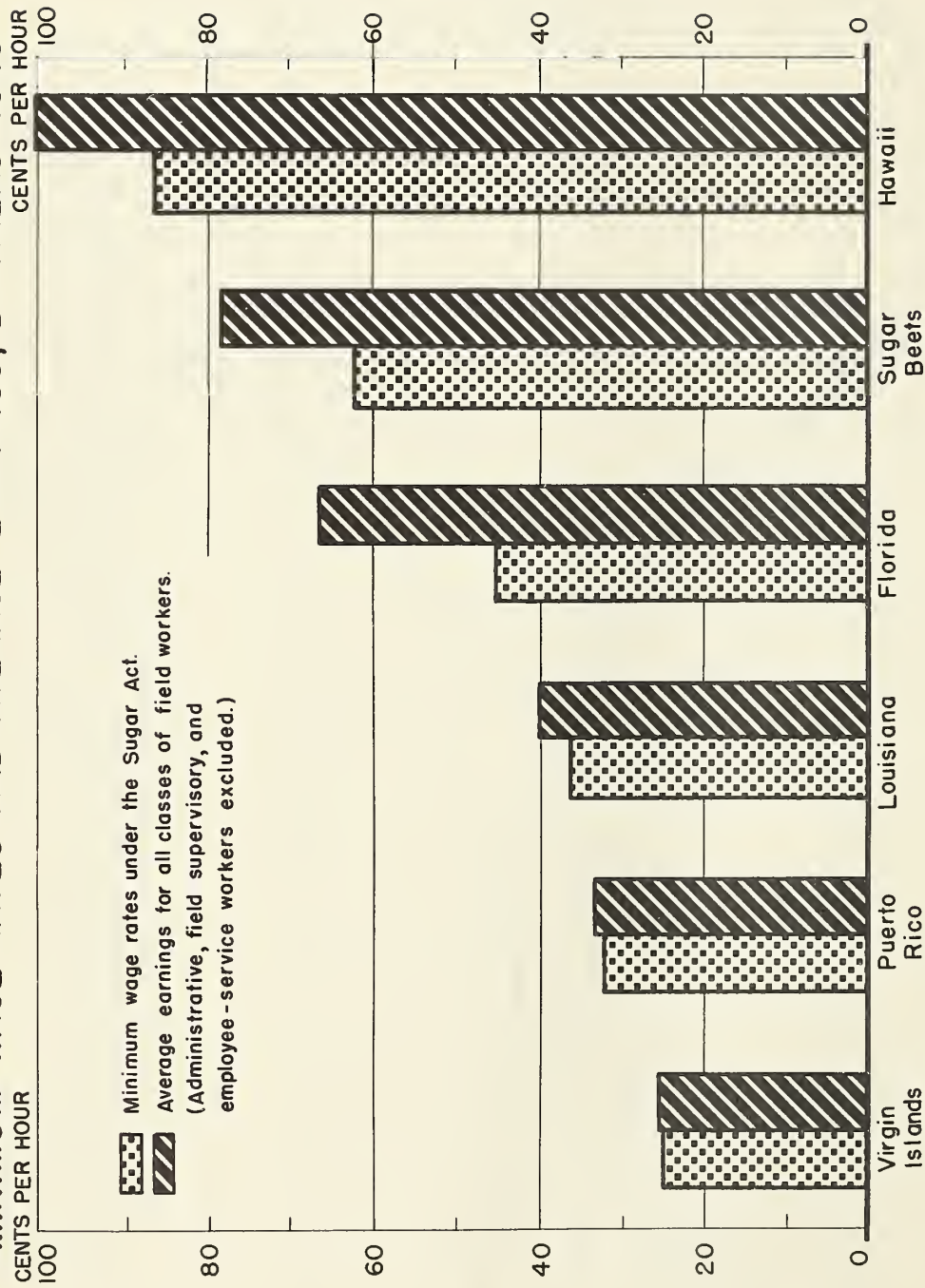


Figure 17. Earnings in the sugar beet area and Hawaii have increased sharply since 1941, largely because mechanization has increased productivity. Hawaiian workers' earnings include overtime and other provisions. Beet area workers' earnings are minimum rates per acre for contract work divided by man-hours per acre exclusive of premiums. The apparent reduction in the minimum wage in the beet area in 1950 is the result of the transfer of a supplemental wage payment from harvesting work to hoeing, which is not included in this calculation. Earnings of supervisory, administrative, and employee-service workers excluded.

MINIMUM WAGE RATES AND AVERAGE EARNINGS, BY AREAS - 1949



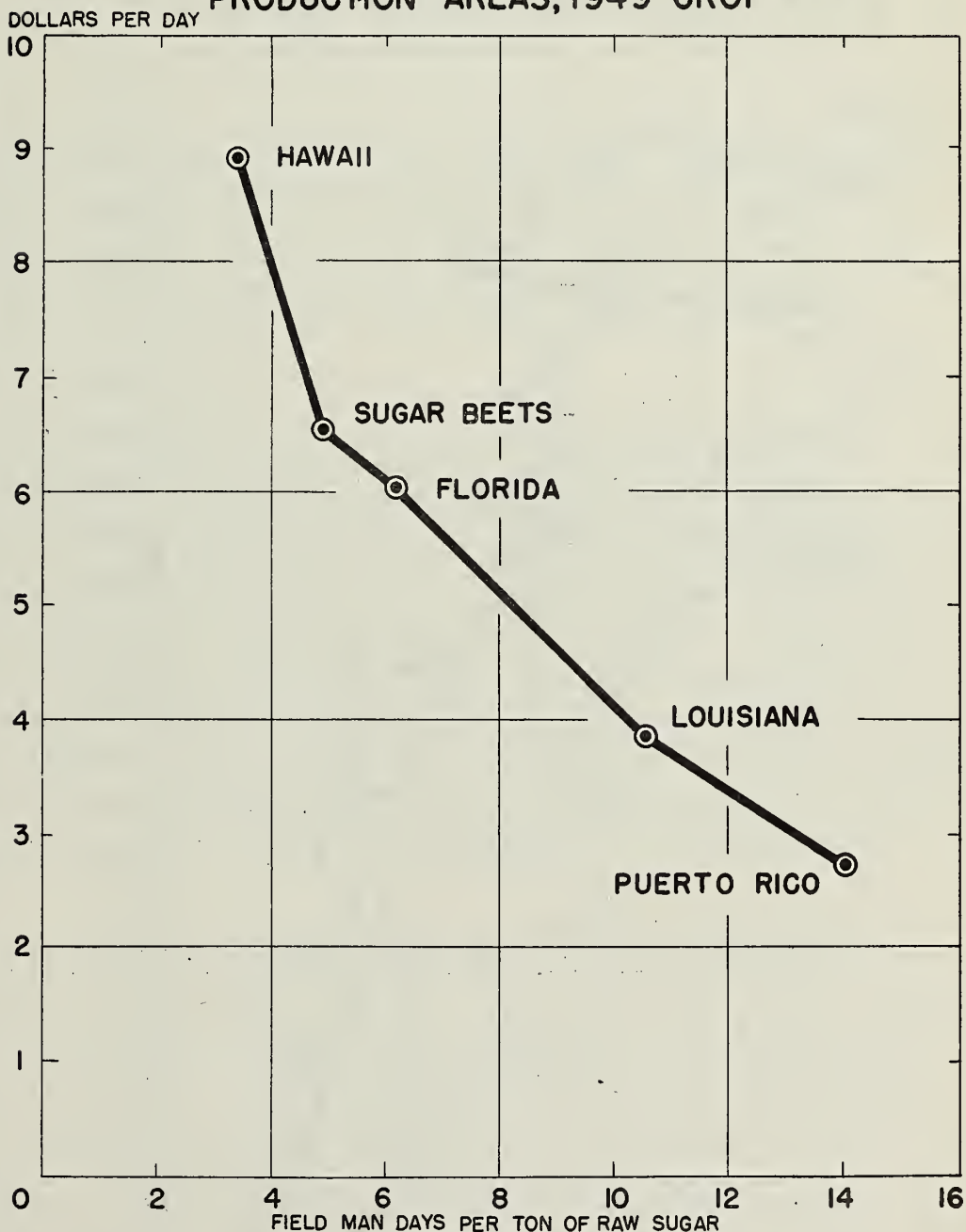
U.S. DEPARTMENT OF AGRICULTURE

PRODUCTION AND MARKETING ADMINISTRATION

Figure 18. Average earnings are higher than the minimum rates prescribed under authority of the Sugar Act in all of the domestic areas. The spread is substantial in the continental sugar beet area and Florida.

For Hawaii, the comparison is between average earnings (including bonuses, allowances for vacations, and extra pay for overtime work) and weighted average minimum wages for the various classes of labor. All data exclude supervisory, administrative and employee-service workers.

RELATION BETWEEN AVERAGE DAILY WAGES AND MAN DAYS' OF FIELD WORK PER TON OF SUGAR, DOMESTIC PRODUCTION AREAS, 1949 CROP



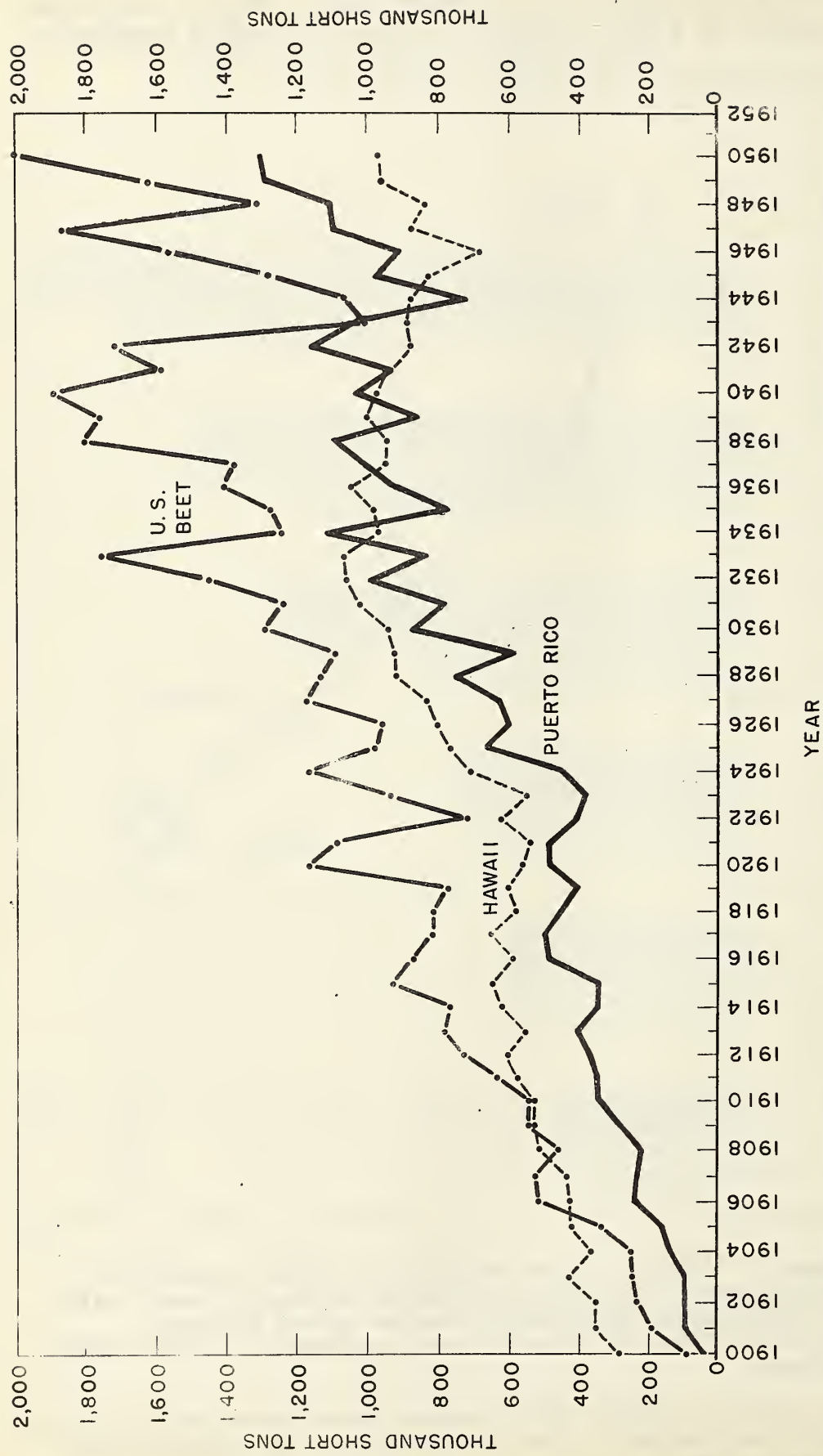
U.S. DEPARTMENT OF AGRICULTURE

PRODUCTION AND MARKETING ADMINISTRATION

Figure 19. There is a close relationship between average daily wage and man-day requirements per ton of raw sugar. Hawaii, with the lowest man-day requirements, has the highest earnings. Puerto Rico, with the highest man-day requirements, has the lowest earnings.

Data represent workers' daily weighted average prevailing cash wages; (supervisory workers included; administrative and employee-service workers excluded.)

SUGAR- PRODUCTION IN U.S. BEET AREA, PUERTO RICO, AND HAWAII



U.S. DEPARTMENT OF AGRICULTURE

YEAR

PRODUCTION AND MARKETING ADMINISTRATION

Figure 20. Sugar production in the United States beet area, Puerto Rico, and Hawaii has increased substantially over the past 50 years. The most significant period in its growth was the decade between 1920 and 1930. From 1930 through the end of World War II, production in Puerto Rico and the beet area did not continue the rate of increase of the 1920's; production in Hawaii declined. In 1950 production in the U. S. beet area and Puerto Rico reached record high levels.

by consumers, industrial users, and distributors. It probably also reflected increased use of sugar in the manufacture of stocks of sugar-containing products. It may also have reflected some increase in final consumption.

In view of the expansion in the production and utilization of corn sweeteners, dextrose, and corn sirup, it is clear that the per capita consumption of all sweeteners combined is higher than it was during the pre-war period. Compared with the 1935-39 average, per capita consumption of dextrose in 1950 more than doubled, and that of corn sirup increased 20 percent. In 1950, the use of all corn sweeteners represented about 12 percent of total sweetener consumption compared with 8 percent in the 1935-39 period.

Production and Quotas by Areas

Since the introduction of the first sugar marketing quotas under the Jones-Costigan Act in 1934 trends in production have differed in the sugar-producing areas on which we rely for continental U. S. supplies. A strong upward trend has continued in Puerto Rico. A recovery and upward trend continued in the mainland cane area until the beginning of World War II. Since then production in the mainland cane area has been about constant. Production in the domestic beet area has been maintained at a higher level than that existing prior to 1934 and reached a record high in 1950, but there have been wide fluctuations in volume. Hawaiian sugar production was cut back in 1934 and declined during the war and strike period, but improvement has been evident since 1946. Cuban production has about doubled the 1934-41 rate. Philippine production was practically stopped as a result of war damage but considerable recovery has been made since 1948. Details of production and quotas for the areas supplying the U. S. are shown in figures 20 to 28.

While increases in sugar quotas have coincided with increased prosperity and expansion in the sugar industry, it is not possible to isolate the effects of the successive Sugar Acts from other economic influences. Since 1934 our economy as a whole recovered from a great depression and achieved a new high in prosperity. Technological developments and increased consumption, due in part to a rapidly rising population, have contributed to greater sugar production. Another important factor has been the presence or absence of alternative opportunities for the use of land and labor. Where such competition exists, as in the domestic beet area, the level of sugar production is influenced by the income from sugar beets compared with the returns from other crops. In such cases, insofar as the Sugar Acts have increased grower incomes, they have strengthened the competitive position of sugar beets as a farm crop. But at the same time, other agricultural programs promoting increased returns for other crops have partly offset the advantages gained by sugar. The sugarcane areas, on the other hand, are in a different situation as few, if any, acceptable alternatives for land and labor exist. In these areas higher returns for sugar will stimulate production somewhat, but their chief result is to improve incomes.

During the World War II period, the quota provisions of the Sugar Act were suspended. Abnormal conditions affected production variously in the different sugar areas. Shortages of labor and fertilizer and the need for other crops for a time reversed the upward trend in the domestic beet area. In Puerto Rico severe droughts as well as the fertilizer shortage resulted in small crops. In Hawaii, the loss of much crop land to the Armed Forces accelerated the decline resulting from shortages of labor and fertilizers. It was the war-time labor shortage which caused Hawaii to mechanize as fully as possible. Production in the Philippines ceased almost entirely during the Japanese occupation, while production in Cuba (after the shipping difficulties of the early war years were alleviated) increased gradually to reach an all-time high in 1947 and 1948 in response to heavy world demand.

Adjustments 1934-36

The consumption estimates established by the Secretary of Agriculture for 1934 and 1935 (and originally for 1936) were about the same as the annual quantity of sugar delivered for consumption in 1930-33. The size of the consumption estimate had peculiar significance for Puerto Rico and the Philippines. The quotas for the insular areas (including Cuba) had been established on the basis of their deliveries during representative years (1931, 1932, and 1933 for all but Hawaii, for which the years were 1930, 1931, and 1932). The 1933-34 crops in Puerto Rico and the Philippines, however, reached new highs. Since they could not be marketed under the 1934 quotas, stocks at the beginning of 1935 were 250,000 tons in Puerto Rico and 451,000 tons in the Philippines. In order to absorb these depressing surpluses, production in those two areas was restricted below marketing quotas for the crops of 1934-35 and 1935-36. In other areas, while production was restricted, cutbacks below the quotas were not considered necessary.

Adjustments Under the Sugar Acts of 1937 and 1948

By the latter part of 1936 sugar prices in the United States had recovered, and the market was again expanding. This expansion gave the various supply areas new opportunities for increasing production, this time within a quota system which provided a stabilized market. Naturally, developments have not been identical in all areas supplying the United States since the passage of the Sugar Act of 1937 as the different areas are subject to widely different geographic and economic conditions.

There is not necessarily a causal relationship between production and marketing quotas, at least on a year-to-year basis. Over a long period production and marketings tend to be equalized. Therefore the general level of production is influenced by the levels of the quotas. Prior to the Sugar Act of 1948, however, the differences between marketing quotas and production in any one year could be comparatively wide as the size of the crops was pretty well determined before the calendar year quotas were announced. Since 1948, with statutory quotas for domestic areas specified in the Act, there is a definite indication of the size of quota.

SUGAR- U.S. MAINLAND CANE PRODUCTION AND ENTRIES INTO CONTINENTAL U.S.
FROM CUBA AND THE PHILIPPINES

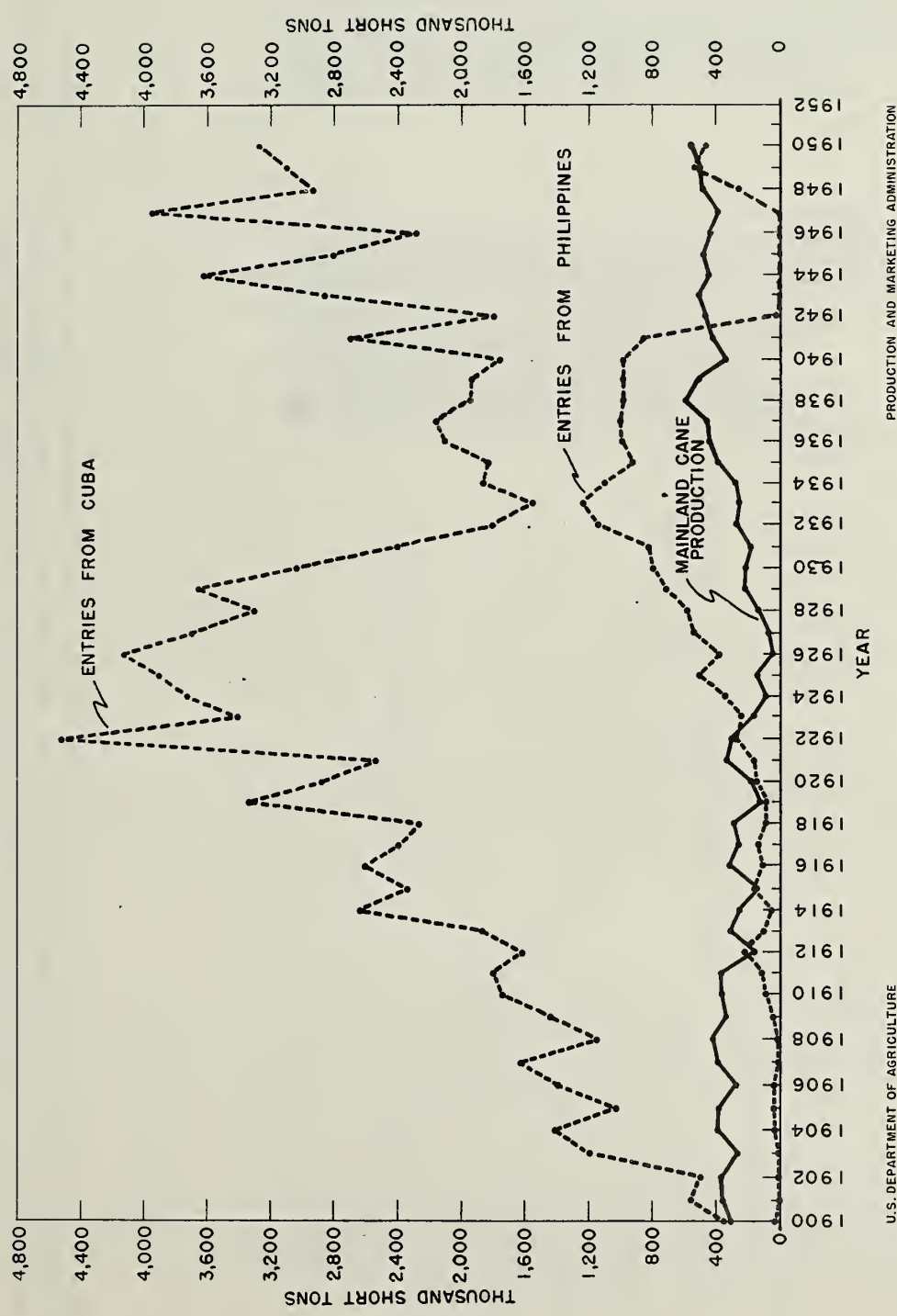
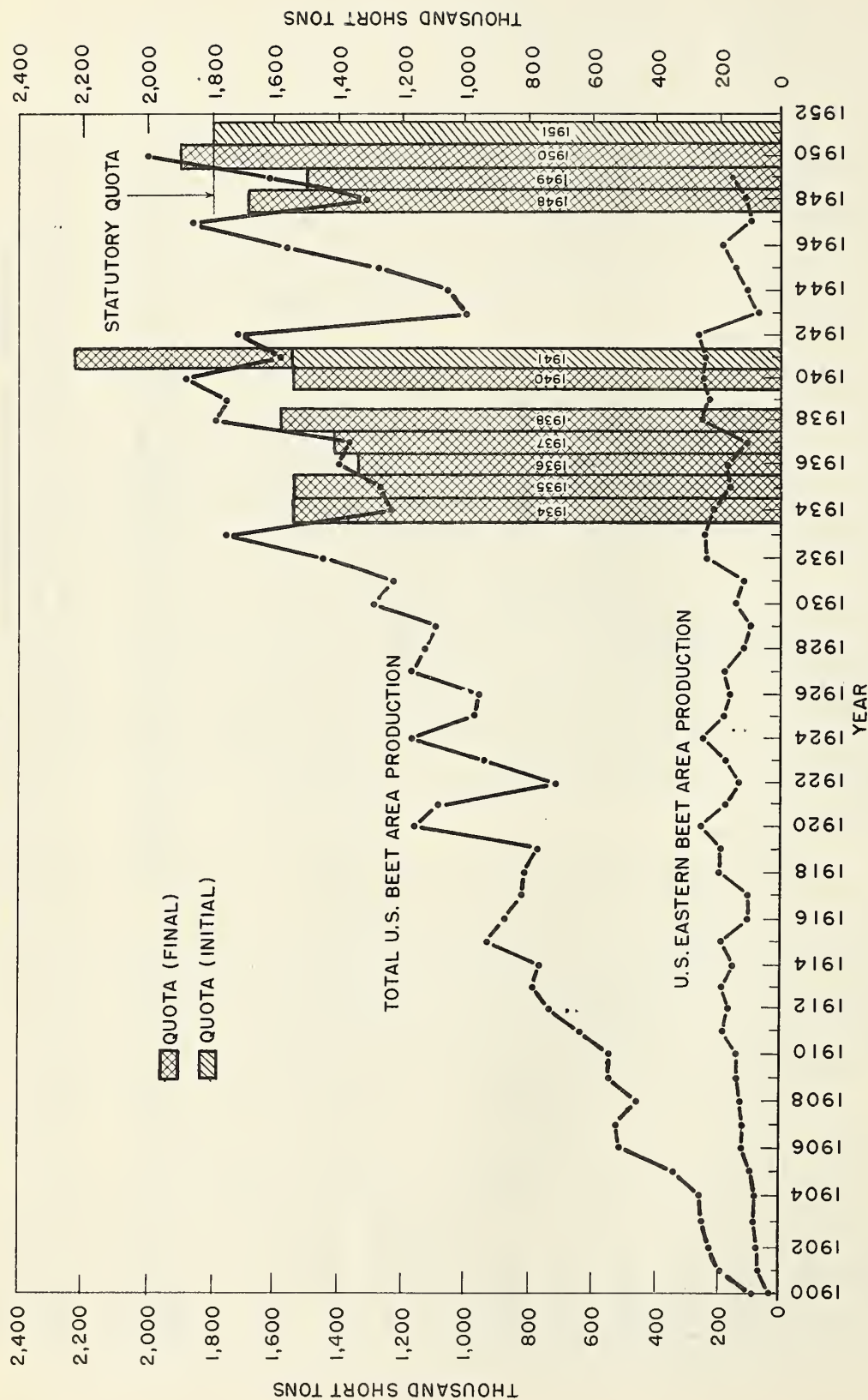


Figure 21. Production in the mainland cane area has been increasing slowly since it reached its low point in 1926. Florida, a producer since 1928, now contributes about one-fifth of the total.

Entries into the United States from Cuba reached their peak in 1922, before the domestic areas expanded their production sufficiently to supply the major portion of the United States requirements. Entries into the United States from the Philippines reached their peak in 1933, the year of smallest entries from Cuba since 1913.

UNITED STATES BEET SUGAR, MARKETING QUOTAS AND PRODUCTION



U.S. DEPARTMENT OF AGRICULTURE

PRODUCTION AND MARKETING ADMINISTRATION

Figure 22. Except in the drought years of the mid-thirties and during wartime difficulties in the 1940's, total beet sugar production has maintained an upward trend. Almost all the increase in beet sugar production has occurred in the States west of the Mississippi.

U. S. Domestic Beet Area

It is difficult to trace any clear trend in beet sugar production over the past fifteen years. Harvested acreage has fluctuated widely as a result of drought (in the mid-thirties), shortage of labor, and government programs and competition from other crops. Yields per acre, however, have steadily increased. A higher proportion of the total acreage is now concentrated in the high-yield areas of the Western States and improvements have been made in seed and production practices and in disease and pest control. Production in 1950 set a new record and exceeded the statutory quota of 1.8 million short tons.

Because of the sensitivity of the sugar beet industry to weather and returns on competing crops, deficits in meeting beet quotas occurred in 1936 and 1937 and again in 1948 and 1949. On the other hand, beet acreage in 1939 was limited and in 1941 a restriction of 16 percent below the 1940 acreage was made effective. (See figure 22.)

Mainland Cane

In the 1930's production of mainland cane sugar increased rapidly, partly as a result of the opening of the new sugar areas in Florida, and partly because of increases in harvested acreage and yields in Louisiana. The improvement in Louisiana cane came about largely through the introduction of new, disease-resistant varieties. After 1938 production leveled off and the total for the two areas since then has averaged slightly below the present statutory quota of 500,000 tons, though the statutory quota was exceeded by record crops both in 1949 and 1950. Output in Louisiana fluctuates considerably more than in Florida, as Louisiana with its short growing season is much more susceptible to weather.

The output increased rapidly between 1933 and 1938 and acreage restrictions were applied to four crops, 1938 through 1941. Because of high yields in 1938 and 1939, production exceeded the contemplated levels, while the freeze in 1940 reduced production for 1940 and 1941 below the anticipated tonnage. (See figure 23.)

Hawaii

Hawaiian sugar production between 1930 and 1940 was relatively stable although a slight downward movement is discernible after 1933. During the war years, the decline was greatly accelerated, and reached a low point in 1946 as a result of the strike of the sugar workers. Since 1946 an upward trend again has been established.

In 1934, under the Jones-Costigan Act, a three-year program was introduced with the purpose of stabilizing production at about 975,000 tons annually, a reduction of 7 percent from the average for 1931-1933. Accordingly, 24,000 acres of plantation sugarcane land were taken out of production.

In 1936, 1937, and 1938, Hawaii's share of the U. S. mainland market, plus local consumption, would have supported a production somewhat above 975,000 tons. Since a Hawaiian crop grows from 18 to 24 months, it is difficult to increase Hawaii's production in a short time. Partly for this reason Hawaii did not respond to the higher quotas of the late 1930's. Also the decline in sugar prices which began in 1937, the same year that mechanical harvesting was introduced in the Islands, led growers to discontinue cane production on land unsuited to mechanized harvesting.

During the period 1940-48 acreage in cane decreased by a further 12 percent. This was partly due to the fact that the Armed Forces took over many acres of crop land along the coastal areas and partly due to labor shortage during the war. Since then some of the land taken over by the Armed Forces has been returned to private control. A number of plantations are bringing back land previously abandoned as unfit for mechanized production. (See figure 24.)

Puerto Rico

In 1949 and 1950 Puerto Rico's sugar production maintained a record high just short of 1.3 million short tons, or about 275,000 tons more than was required to meet her statutory mainland quota and local consumption. Had Puerto Rico not received reallocations of deficits from other areas, and sold some sugar on the world market, substantial surpluses would have been carried over into 1950 and 1951.

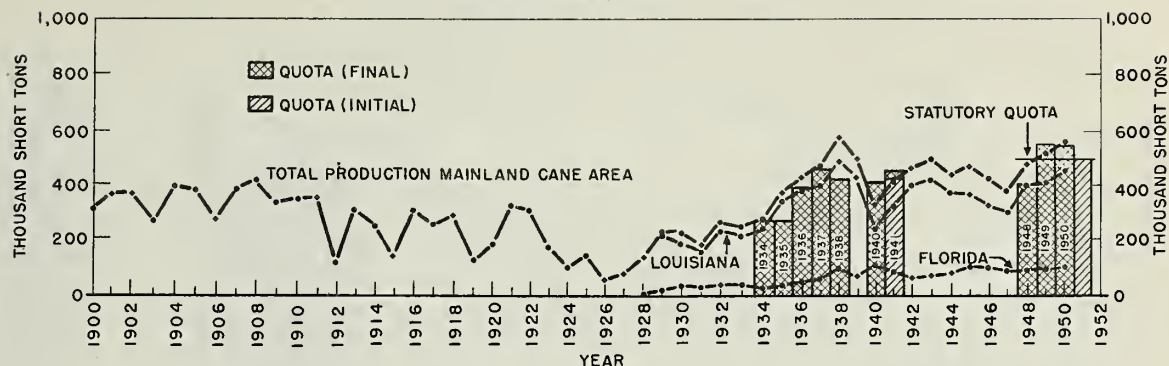
Puerto Rico's production has consistently been close to or in excess of its marketing quotas since the Jones-Costigan Act became effective. The last two crops of close to 1.3 million tons resulted from large acreages plus exceptionally good weather conditions.

Puerto Rico's sugar production is greatly affected by the weather. Puerto Rican production is concentrated in a relatively small area; and droughts (especially on the south coast) and hurricanes in some years, and exceptionally fine growing weather in other years, result in wide variations in output. (See figure 25.)

The Philippines

In 1934 the Philippine Independence Act limited the amount of Philippine sugar which might enter the United States duty-free to about 952,000 short tons, commercial weight. This is equal to 982,000 short tons, raw value. Any quantities above that were subject to full-duty rates. Entries of Philippine sugar from 1935 through 1940 corresponded very closely to the duty-free limitation. While Sugar Act quotas originally assigned to the Philippines under the Jones-Costigan Act and the Sugar Act of 1937 tended to be larger than the Independence Act limitation, it was not profitable to ship the full-duty portion, and deficits were usually declared which brought the adjusted Sugar Act quota in line with the terms of the

UNITED STATES MAINLAND CANE SUGAR, MARKETING QUOTAS AND PRODUCTION

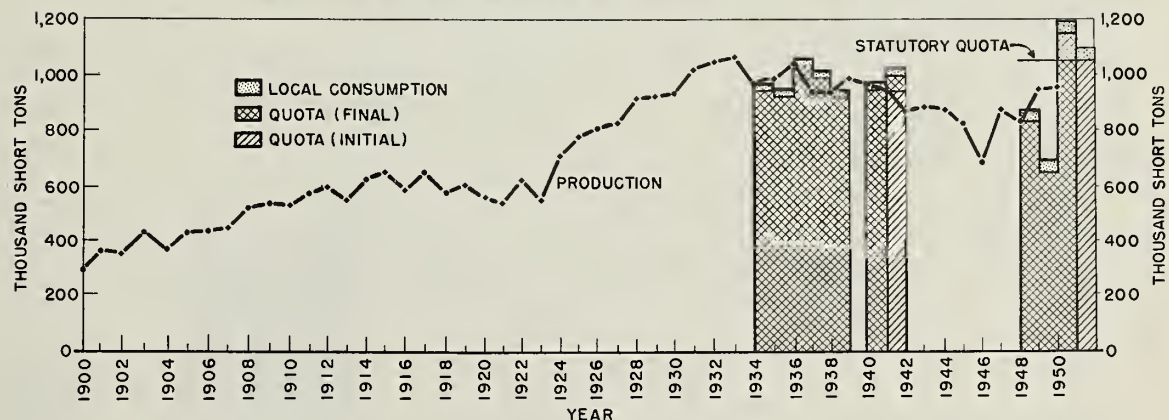


U.S. DEPARTMENT OF AGRICULTURE

PRODUCTION AND MARKETING ADMINISTRATION

Figure 23. Louisiana cane sugar production declined from 1900 to 1926 largely because of the prevalence of mosaic and red rot. Since more resistant varieties of cane were introduced, production has recovered and surpassed its old level. In 1928, sugarcane was first harvested in Florida. Production in Florida now comprises about one-fifth the total in the mainland cane area.

HAWAIIAN SUGAR, MARKETING QUOTAS AND PRODUCTION

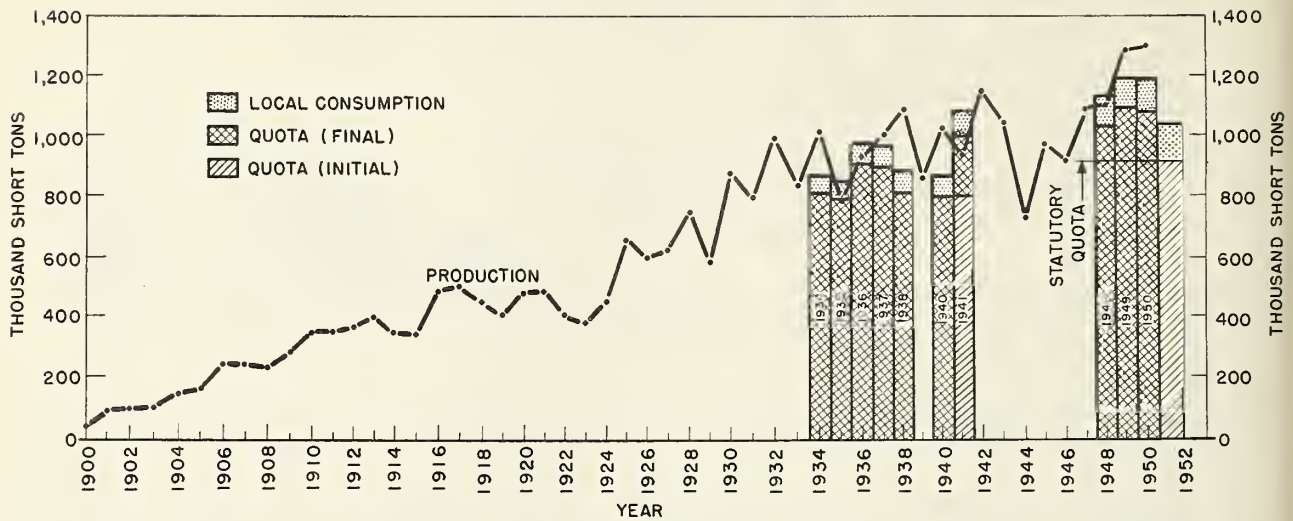


U.S. DEPARTMENT OF AGRICULTURE

PRODUCTION AND MARKETING ADMINISTRATION

Figure 24. Hawaiian production increased most rapidly between 1924 and 1933, was adjusted downward when quotas were put into effect, and declined during the war period. By 1949 and 1950 production had about recovered to the 1941 level.

PUERTO RICAN SUGAR, MARKETING QUOTAS AND PRODUCTION

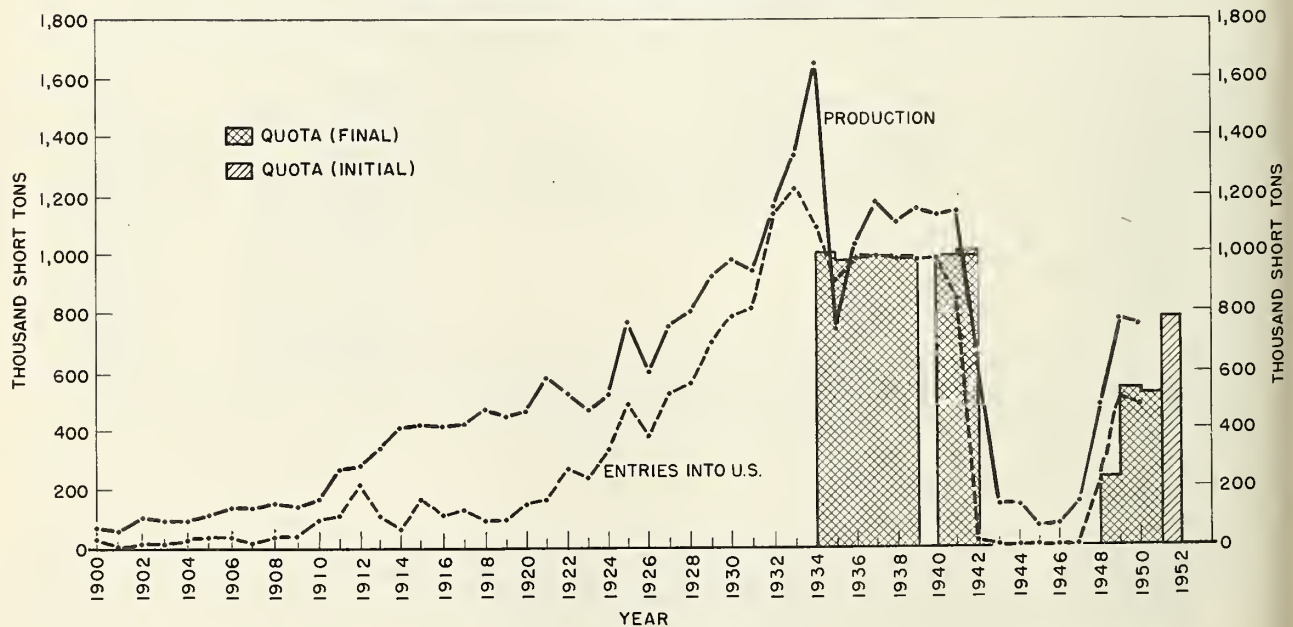


U.S. DEPARTMENT OF AGRICULTURE

PRODUCTION AND MARKETING ADMINISTRATION

Figure 25. Puerto Rican production has been following a pronounced upward trend since 1923, except for the war years, and set new records in 1949 and 1950. Despite crop restrictions, production has exceeded marketing quotas plus local consumption in most years during which quotas have been in effect for the full year.

PHILIPPINE SUGAR PRODUCTION, ENTRIES INTO CONTINENTAL UNITED STATES AND MARKETING QUOTAS



U.S. DEPARTMENT OF AGRICULTURE

PRODUCTION AND MARKETING ADMINISTRATION

Figure 26. Philippine production reached a peak in 1934. Between 1934 and 1941, production dropped sharply and settled at a lower level, due chiefly to the limitation of duty-free sugar entries into the U. S. under the Philippine Independence Act. Production is now recovering from wartime devastation.

Independence Act. Since the Philippines commonly shipped all their sugar exports to the United States, production leveled off after the restriction under the Jones-Costigan Act in 1935 at a quantity sufficient to meet the duty-free quota plus local consumption.

World War II devastated the Philippine sugar industry and delayed Philippine independence. The Philippine Trade Act of 1946 carried sugar terms similar to the Independence Act, and the quota provided in the Trade Act was incorporated into the Sugar Act of 1948. This quantity may enter the United States duty-free each year until July 4, 1954, when it becomes subject to 5 percent of the full-duty rate. The duty rate is to become progressively higher over the succeeding twenty years, reaching 100 percent as of January 1, 1973. (See figure 26.)

Cuba

Under the Jones-Costigan Act and the Sugar Acts of 1937 and 1948, Cuba's share in the U. S. market has been protected by the quota provisions. The 1948 Act, however, is more advantageous to Cuba than its predecessors. The fixed quotas for domestic areas naturally give the advantage of increased U. S. consumption essentially to Cuba. As an additional protection the Act provides that in any case the Cuban quota shall not be less than that which would have been established under the provisions of the Sugar Act of 1937. In the proration of deficits the current Sugar Act is also more favorable to Cuba than the Act of 1937. Under the old Act, any Philippine deficit was prorated exclusively to foreign countries other than Cuba; now Cuba receives 95 percent of any Philippine deficit.

Under the Sugar Act of 1948, Cuba's basic quota has ranged between 1.9 and 3.4 million tons. (See figure 27.) Additional quota has accrued to Cuba as a result of deficits declared for the Philippines and domestic areas, and the U. S. has made several large purchases of sugar from Cuba for use in occupied areas overseas. Huge additional quantities have been purchased by foreign countries as a result of funds provided by the U. S. Government specifically for that purpose, or with foreign funds freed for the purchase of sugar as a result of assistance being given by the U. S. Government for the purchase of other requirements.

The Trend of Protection

Since the enactment of the Jones-Costigan Act the protection given to the U. S. sugar industry has been reduced, and its nature modified. In fact, during most of the year following the outbreak of fighting in Korea prices in the United States have been below a parity with those in the world market. The general situation is illustrated by figure 29. Since 1934, some of the benefits of the protective system have also been extended to the foreign producers, principally Cuba, marketing sugar in the U. S.

Prior to 1934, the tariff constituted the only protection given the industry. Its inadequacy to cope with depression conditions, and the U. S. Tariff Commission's recommendation that it be supplemented by limitations on sugar marketings, have been set forth above. At the time the Jones-Costigan Act was passed, the Congress acted upon this recommendation. Since then the tariff system has supplemented the protection afforded by the quota system and the payments made directly to domestic growers of sugarcane and sugar beets.

When the tariff assumed a role of secondary importance, it was possible to reduce duty rates without jeopardizing the position of the U. S. sugar industry. The first reduction from the high rates established under the Tariff Act of 1930 coincided with the establishment of marketing quotas and a processing tax, the proceeds of which were to be used for conditional Sugar Act payments.

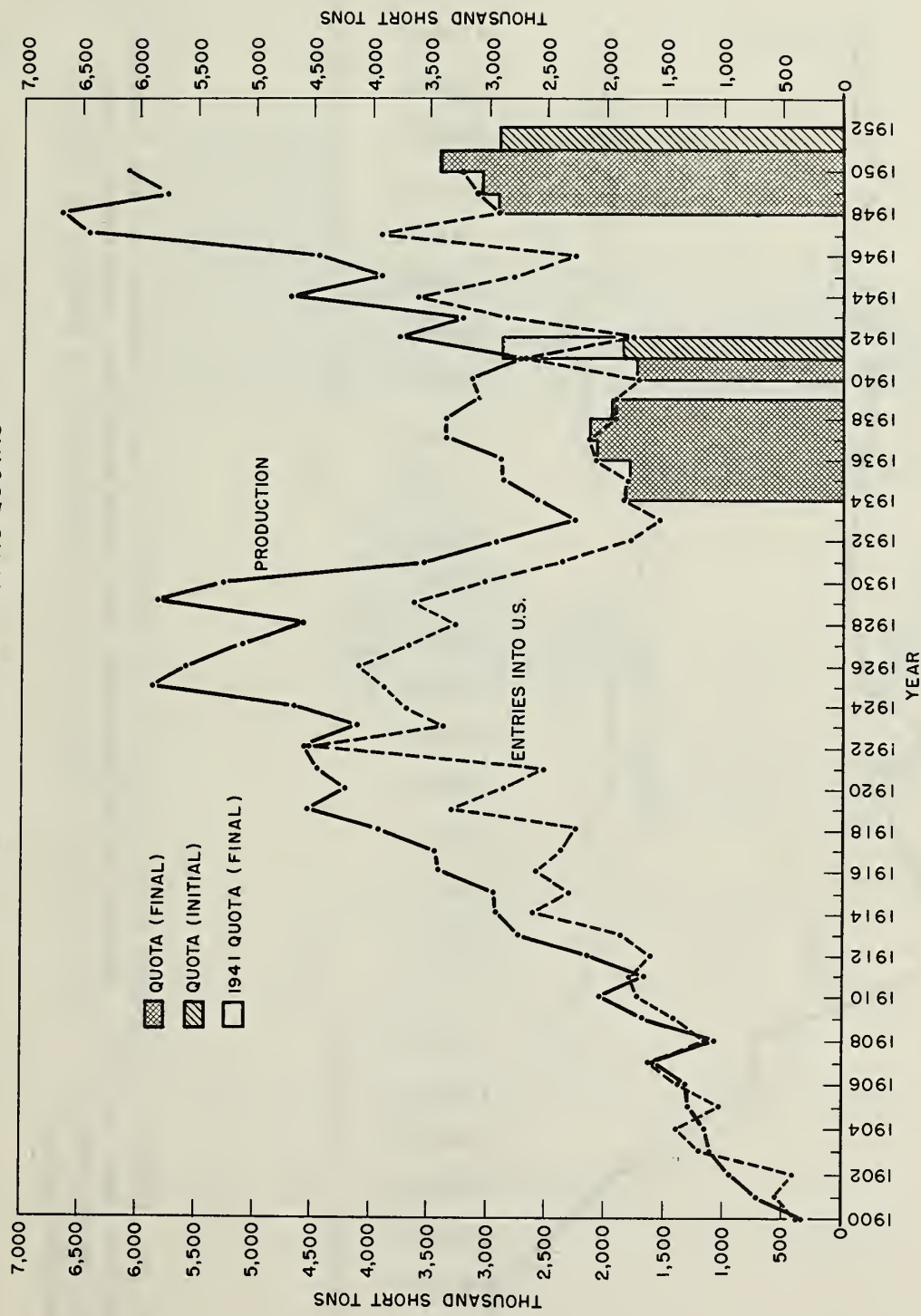
The first major reduction in the tariff on Cuban sugar, from 2.0 to 1.5 cents effective June 8, 1934, accorded with the recommendation of the U. S. Tariff Commission under the "flexible" tariff provisions of the Act of 1921. These provided that duty rates should not exceed the difference in production costs between the U. S. and its principal competitors.

Subsequent reductions in the tariff rates on sugar have been made under the Reciprocal Trade Agreements Act of 1934, which authorized the President to reduce tariff on many commodities up to a maximum of 50 percent of the rates prevailing at the time of its enactment. International negotiations under the General Agreement on Tariffs and Trade, in 1948-51, have resulted in rates on sugar from Cuba and the "full-duty" countries being reduced by almost the maximum amounts permissible. The present Cuban rate is 0.5 cents per pound of sugar, raw value. The corresponding full duty rate is 0.625 cents.

The protection given by the quota system to U. S. and foreign producers marketing sugar in the U. S. can be measured by the differential between the prices at which raw sugar is sold in Cuba for shipment under quota to the U. S. and the price Cuban sellers obtain for sugar sold to other countries. This differential (the "quota premium") in the U. S. comes about through the limitation of total marketings of sugar to the quantities which can be sold consistent with a fair price to producers and consumers.

The quota premium on sugar sold in the U. S. increased from the initiation of the quota system until it reached a high point of 1.7 cent per pound in 1936. For the next three years it was reduced, and then remained relatively stable at less than one cent until quotas were suspended in 1942. The fluctuations in the quota premium, it should be pointed out, are due more to changes in the world price than to changes in the U. S. price, which since 1934 has been relatively stable.

CUBAN SUGAR PRODUCTION, ENTRIES INTO CONTINENTAL UNITED STATES
AND UNITED STATES MARKETING QUOTAS



U.S. DEPARTMENT OF AGRICULTURE

PRODUCTION AND MARKETING ADMINISTRATION

Figure 27. Cuban production and marketings in the United States declined sharply between 1929 and 1933. Under the Sugar Acts, since 1933 imports from Cuba have more than doubled. Since the war Cuban production has been at record levels.

SUGAR FOR DIRECT CONSUMPTION: ENTRIES INTO CONTINENTAL U.S. FROM CUBA AND PUERTO RICO

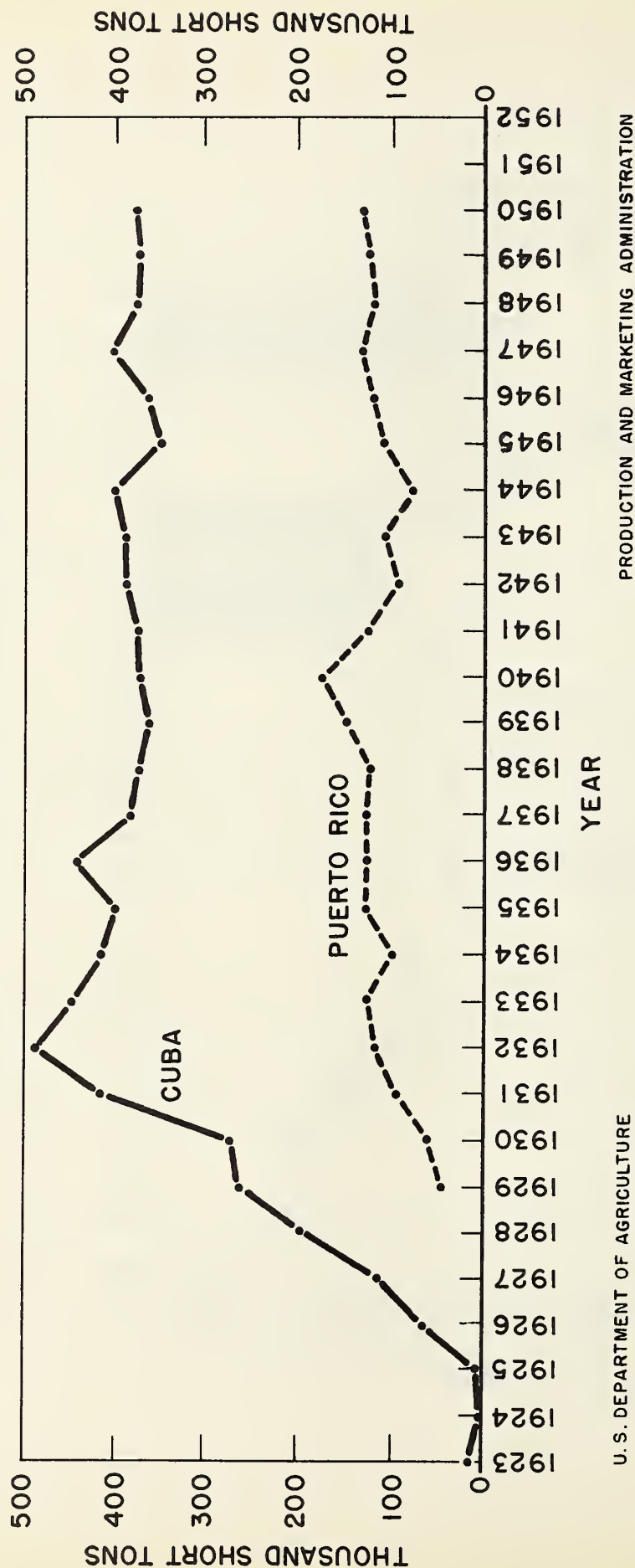
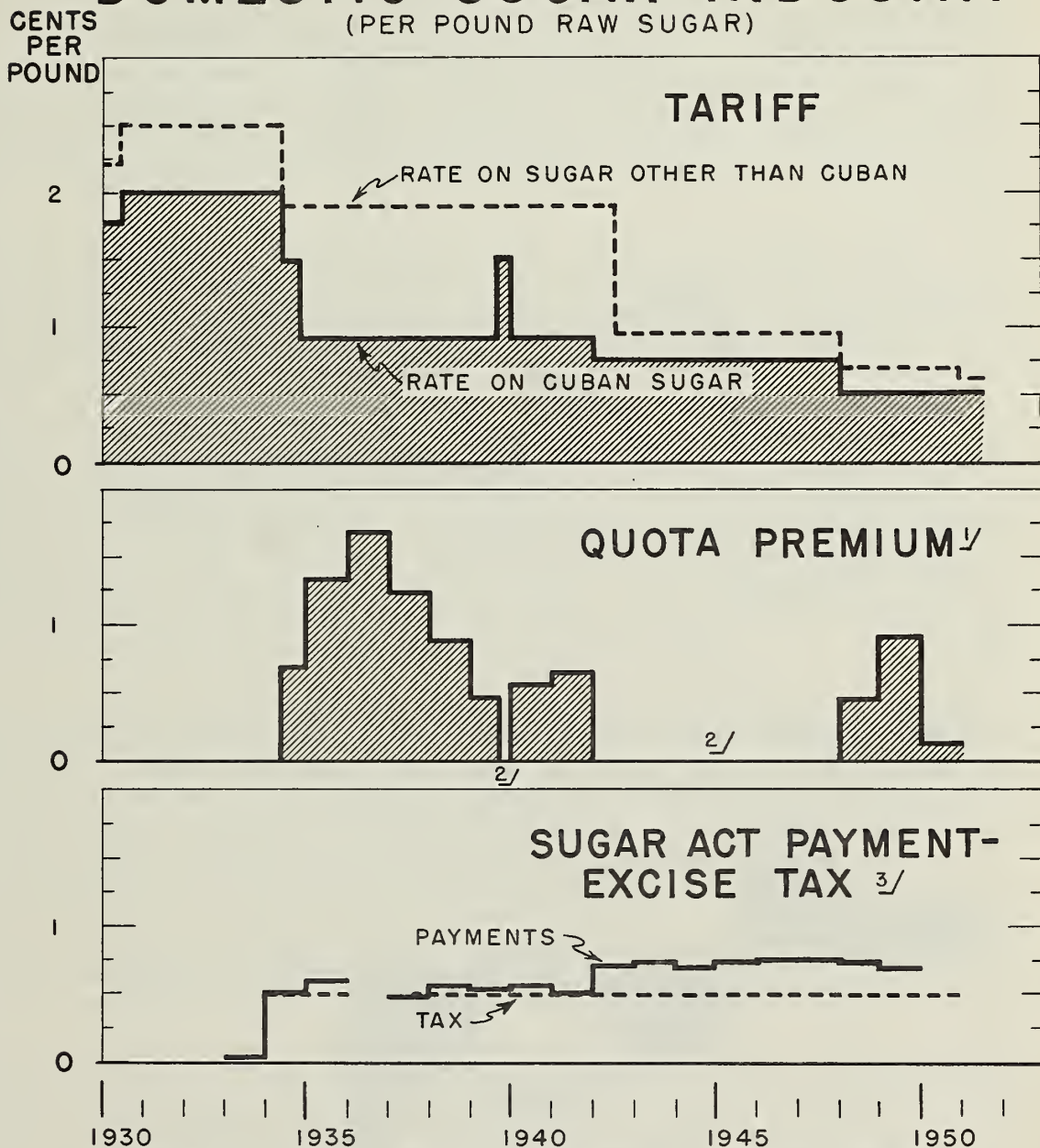


Figure 26. Imports of refined sugar from Cuba rose from practically nothing in 1925 to nearly 1/2 million tons in 1932. Imports of refined sugar also rose materially from Puerto Rico during the depression. These increases resulted in the restrictions on imports of direct consumption sugar.

PROTECTION GIVEN DOMESTIC SUGAR INDUSTRY



^{1/} SPREAD: N.Y. PRICE (LESS DUTY AND FREIGHT) AND WORLD PRICE

^{2/} QUOTA NOT IN EFFECT

^{3/} EXCISE TAX PAID ON PROCESSING OR IMPORTING OF SUGAR; SUGAR ACT PAYMENT MADE TO DOMESTIC GROWERS.

U.S. DEPARTMENT OF AGRICULTURE

PRODUCTION AND MARKETING ADMINISTRATION

Figure 29. The tariff on sugar has been progressively reduced since the Jones-Costigan Sugar Act went into effect in 1934. The quotas were most effective in supporting domestic prices in the pre-war period. Sugar Act payments average about 65 cents and the excise tax is $53\frac{1}{2}$ cents per 100 pounds, refined value. Tax revenues exceed payments, since the latter are made only on domestic sugar.

RAW SUGAR QUOTA PREMIUMS AND DISCOUNTS

WEEKLY COMPARISON, F.A.S. CUBA PRICES OF RAW SUGAR FOR
SHIPMENT TO U.S. AND WORLD MARKETS
CENTS
PER POUND



1. NEW YORK PRICE LESS DUTY AND FREIGHT AND INSURANCE FROM HAVANA, CUBA.
2. F.A.S. HAVANA, CUBA.

Figure 30. Ever since the outbreak of hostilities in Korea, with the exception of two short periods, Cuba has supplied sugar to the United States at prices well below those which it received for the balance of its crop. The quota provisions of the Sugar Act have had a stabilizing effect on U. S. sugar prices.

Although the quota premium under the Sugar Act of 1948 has averaged less than it did in the prewar period, in 1948 it amounted to about 1/2 cent and in 1949 it was close to 1 cent per pound. For the first half of 1950 the quota premium averaged around 1/2 cent, but since the outbreak of hostilities in Korea the premium has been largely negative, thus serving as a protection to U. S. consumers as the world price of sugar spiraled upward while the U. S. price remained relatively stable. Figure 30 shows quota premiums and discounts, by months, since January 1950.

The use of the quota system to keep domestic prices below the world level is a new development. In the latter part of June 1950 the Cuban price of sugar for export to world markets was 2.30 cent per pound above the Cuban price of sugar for sale under quota to the United States.

Except for a short period in January and February the world sugar price has shown a strong or inflationary tendency throughout the first half of 1951. Large purchases of new crop sugar were made by European countries in December and January when supplies of actual sugar were practically exhausted. This had a bullish effect on the market. Beginning again in late February foreign countries have continued to make large purchases at steadily increasing prices. Such buying has had the inevitable inflationary effect on the world market. By June 21 the world price of sugar f.a.s. Cuba reached 8.05 cents per pound.

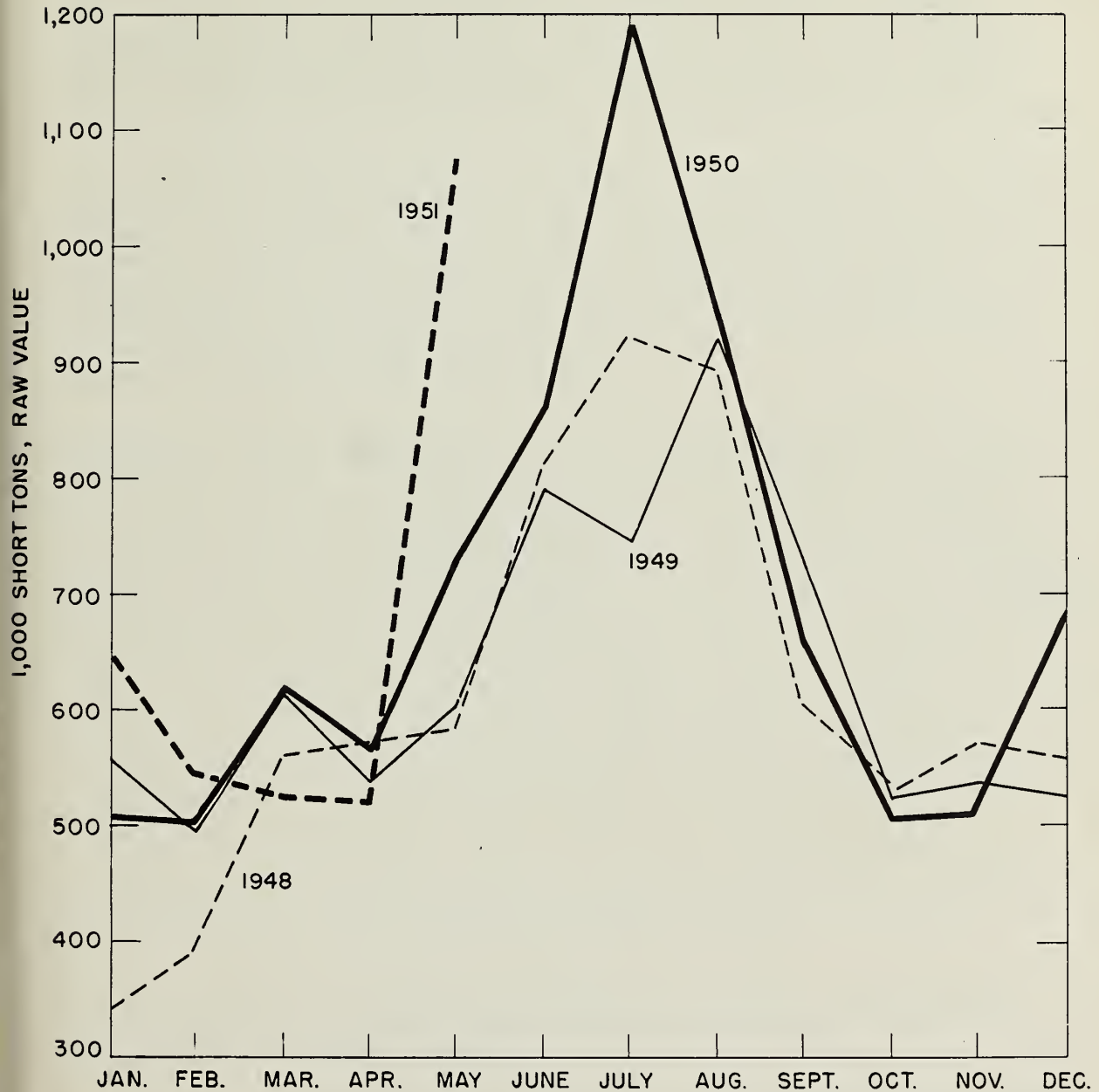
The quota system, supplemented by export controls, has protected the domestic market against most of the recent inflationary tendencies of the world market. Cuba, the Philippines, and the major full-duty countries supplying this market show their willingness to fill their quotas for the United States, despite the temporarily higher prices prevailing in the world market. To check inflationary tendencies in our prices for sugar and to prevent the loss of necessary supplies, it became necessary to make tighter use of the export controls authorized by the Export Control Act of 1949. Although domestic sugar prices have risen, they are well below world prices. On June 21 the duty paid New York spot price was 6.75 cents per pound, equivalent to about 5.75 cents f.a.s. Cuba.

The hoarding movement which developed in the summer of 1950 following the outbreak of hostilities in Korea demonstrated the risks household consumers and industrial users face in permitting their sugar stocks to become too depleted in periods of uncertainty. During the early months of 1950 consumers had permitted their stocks to run so low that they were critically in need of supplies during the period of peak summer demand. The hoarding movement merely added to the heavy buying that would have been necessary in any event under such conditions.

Domestic household consumers and industrial users again let their supplies run down in March and April of 1951. Although this caused raw sugar prices to decline temporarily, it involved a possible danger during the summer months of peak demand. Fortunately, distribution rose sharply during May. Therefore, a significant part of the additional requirements for the summer months has been met. (See figure 32.)

Because of the time involved in importing sugar, refining it, and passing it through the channels of distribution to ultimate consumers and industrial users, there is always a danger that temporary shortages may develop when purchases are made sporadically. Regardless of the safeguards that may be established through quotas and other Governmental actions to protect the interests of consumers by making adequate supplies available for this country, it will remain necessary for household consumers and industrial users to protect their own interests by maintaining normal stocks and buying in an orderly manner.

SUGAR DISTRIBUTION BY MONTHS JANUARY 1948 TO MAY 1951



U. S. DEPARTMENT OF AGRICULTURE

PRODUCTION AND MARKETING ADMINISTRATION

Figure 32. Following the outbreak of hostilities in Korea, many buyers purchased sugar in excess of their normal seasonal needs. During March and April 1951 stocks in the hands of consumers were reduced. However, they were replenished again from heavy buying in May.

International Efforts

The world's production and trade in sugar have long been subject to unstable conditions which have resulted not only in prolonged depressions but also in threatened depression in the sugar industry even in times of general prosperity. These conditions have been created largely by the nationalistic policies mentioned briefly above.

Over the years many attempts have been made to stabilize the world's sugar economy by international agreements. At present, the International Sugar Agreement of 1937 is still nominally in effect, though its export-quota provisions have been suspended since early in World War II. The members of the International Sugar Council, established to administer the Agreement of 1937, have recently been considering whether a new Agreement should be adopted, and several proposed drafts have been circulated.

At the meeting of the Council in June and July 1950, the U. S. Delegation expressed itself in favor of a new Agreement to stabilize the world market, and made it clear that its objective should be to make adequate supplies of sugar available at all times, at prices equitable both to producers and consumers. Besides being consistent with the general U. S. policy of encouraging world trade, a stabilized world market is of interest to the U. S. to the extent that it increases the stability of our domestic sugar-producing areas and of the exporting countries upon which we depend for a large part of our supplies. The U. S. Delegation agreed with the general position taken at the Council meeting, that, should depressing surpluses arise, the regulation of production and exports from exporting areas would be necessary. But it emphasized that any real increase in stability in the world market must ultimately come about through expanded world consumption and imports of sugar. The U. S. Delegation urged the reduction of sugar prices paid by consumers in many countries to a level more consistent with world prices, the elimination of barriers to international trade in sugar, and some limitation on expansion of sugar production in highly protected areas.

As the outbreak of hostilities in Korea has brought new prosperity to the world sugar market, little progress toward a new Agreement has been made in recent months.

To date, the most important international agreements affecting sugar have been the Brussels Convention of 1902, the Chadbourne Agreement (1931), and the International Agreement of 1937.

The Brussels Convention was the first successful attempt to prevent exports of subsidized sugar, and to reduce taxes imposed on imported sugar. Conditions prior to this Convention were such that drastic action was necessary. Beet sugar production had expanded rapidly in

Europe during the nineteenth century as it was protected by the high duties originally established on imports of cane sugar, particularly in refined form. Gradually beet sugar began to be exported in considerable volume, as drawbacks (originally intended to offset the import duty on cane sugar) were paid on all refined sugar exports. When applied to beet sugar produced in the exporting country, such export drawbacks were actually export subsidies. Another source of subsidy encouraging beet sugar production was the excise tax, which was based on the estimated percentage of recoverable sugar. Although improved cultivation and processing methods markedly increased sugar yields, the tax computation remained unchanged. Thus, beet sugar manufacturers in such countries paid tax on an understated production, but when exporting sugar were entitled to drawbacks on the quantities actually exported. As a result of these subsidies, bounty-fed beet sugar flooded the world market and also was a cause of great concern to the national treasuries of the beet-sugar exporting countries.

As early as 1864 Great Britain, France, Holland, and Belgium entered into a ten-year agreement to suppress the indirect and direct bounties on beet sugar. The agreement, which provided that the drawback on refined sugar exports should not exceed the tax originally paid on the manufacture or importation of the equivalent raw sugar, continued until 1875 but was largely ineffective. The Dutch color standard was used to relate raw and refined sugar; and the inexactitude of this method plus the lack of control over processors and refiners defeated the purpose of the agreement.

During the period of the convention, conferences were held at The Hague, London, Paris, Brussels, and again at Paris with the intent of correcting the defects. Substitution of the saccharimeter test for the Dutch color standard and the manufacture and refining of sugar in bond were discussed but never agreed upon by all parties at any one time. Meanwhile, England, pursuing its free trade policy, removed duties on all sugar, including bounty-fed sugars from Austria.

Attempts were made to call further conferences in the early 1880's after the expiration of the convention but failed because of England's refusal to levy countervailing duties against sugars exported under bounty from non-signatory nations. Finally in 1887 a conference met in London which included in addition to the powers which signed the 1864 convention, Germany, Austria, Italy, Spain, Russia, Denmark, and Sweden. France and Austria refused to ratify the agreement and no further attempts at international conventions were made for ten years.

A meeting was held in Brussels in 1898 but no agreement resulted.

The Brussels Convention

On December 17, 1901, a conference initiated by Great Britain but attended by representatives of Germany, Austria-Hungary, Belgium, Spain, France, Italy, Holland, Sweden, and Norway, convened in Brussels. A convention drawn up at this conference was ratified by Belgium, Germany, France, the Netherlands, Great Britain, Austria-Hungary, and Italy prior to March 5, 1902, and since the ratification of Spain, Norway, and Sweden as non-exporting countries was not necessary, the Convention became binding on the ratifying powers.

The avowed intention of the Convention was the desire to equalize conditions of competition between beet and cane sugar exported from the various countries and to promote the consumption of sugar. Believing that this two-fold aim could be obtained only through the abolition of bounties and by limitation of the surtaxes, the contracting parties undertook to suppress, from the effective date of the Convention, the direct and indirect bounties by which producers or exporters of sugar might benefit and to refrain from establishing bounties of this kind during the whole duration of the Convention. By definition bounties were:

- (a) direct bounties granted on exportation
- (b) direct bounties granted on production
- (c) total or partial exemption from taxation granted for a part of the manufactured output
- (d) advantages derived from excess of yield
- (e) advantages derived from the exaggeration of the drawback
- (f) advantages derived from any surtax in excess of 6 francs per 100 kilograms of refined sugar or 5 francs 50 centimes per 100 kilograms of other sugar. Surtax was defined as the difference between the rates of duty or taxation to which foreign sugars were subject and that imposed on the home product.

The contracting parties further agreed either to refuse entry or to impose special duties on imports of sugar from countries that granted bounties either on production or export; the special duty to be not less than the amount of bounties, direct or indirect, granted in the country of origin. Great Britain and the Netherlands agreed that no bounty, direct or indirect, would be granted to the sugars of their colonies and that no preference would be granted in the mother countries to colonial sugar as against sugars from any of the contracting countries.

The signatory powers agreed to admit, at the lowest rate of import duty, sugar of any of the contracting countries and further agreed not to subject cane and beet sugar to different rates of duty. A permanent commission was established for the purpose of watching the administration of the provisions of this Convention and transmitting reports to Member Governments which could, if the need arose, convoke a conference to consider and take such decisions or measures as circumstances might warrant.

Provision was made for the admittance of non-signatory states which might desire to adhere to the Convention. The Convention became effective September 1, 1903, for a period of five years with provision for continuing thereafter on a year-to-year basis. Actually the Convention was renewed several times for periods longer than a year, the last time in 1912 for the period to 1918 but became ineffective with the outbreak of the World War in 1914. Great Britain, which under the Convention had followed the course of refusing entry to sugar from bounty-fed areas, discontinued the exclusion of such sugar after 1907 when after a general election the Government changed. However, since this sugar could not be reshipped in refined form into countries which adhered to the Convention and the Convention had already been so beneficial in other signatory countries, Great Britain was continued as a modified participant and the defection did not seriously impair the agreement. Russia, not one of the original signatories to the Convention, was admitted in 1908 under the restriction that she would not send more than 200,000 tons of sugar a year into European markets.

Relieved of the heavy burden of subsidizing exports, several of the continental beet-producing nations lowered the tax on home sugar consumption, which then expanded so markedly that much of the pressure on the part of producers for export subsidies disappeared. No longer fearful of the competitive effects of ever-changing and ever-mounting subsidies on beet sugar, capital returned to the sugarcane industry.

By the outbreak of World War I the Brussels Convention had lost some of its effectiveness because of various exceptions made to it. During the war, the world's sugar economy was largely disrupted, and after the war Europe's beet sugar economy was gradually restored behind protective barriers.

The full implications of expanded production in the face of trade restrictions did not become evident until 1925, when surpluses began to accumulate. By 1927 Europe's beet sugar production had been largely restored, and the principal exporting countries--Czechoslovakia, Poland, and Germany--were asked by Cuba to limit their exports and stimulate domestic consumption. This they were prepared to do in exchange for Cuba's continuing to limit her crop. But when Java declined to commit herself to similar restrictions, the plan was abandoned as impractical. Discussions were renewed in 1929, but Java's unwillingness to cooperate still forestalled action.

Java's negative attitude toward crop restriction and international cooperation at this time may be explained by the fact that her industry had not yet suffered the protracted depression that Cuba had endured. Java considered her market difficulties in the Far East as temporary. Moreover, wage rates in Java were very low and the higher yields which followed the introduction of improved cane varieties lowered production costs sufficiently to cushion somewhat the effects of low world prices.

By 1931, however, Java could no longer afford to remain aloof from some form of international control designed to strengthen prices and expand markets. The world price of sugar was by then barely above one cent a pound, and Java's markets were being progressively restricted. Japanese production was expanding, and, beginning in 1930 and 1931, British India's new protectionist policy sharply reduced her market in that country. Java therefore agreed to the terms of the Chadbourne Agreement, which in 1931 was entered into by countries representing nearly half of the world's sugar production and 90 percent of the sugar entering world trade. 1/

The Chadbourne Agreement, 1931

Under the terms of the Chadbourne Agreement, the signatories agreed to limit their exports to specific annual quotas, to separate their excess stocks from their normal supplies, and to eliminate their surpluses. Provision was made for increasing the export quotas if and when the price of sugar f.o.b. Cuba reached 2 cents a pound and maintained that level for 30 days. This contingency, however, never arose, since export quotas had been set too high in comparison with requirements from the world market.

The Chadbourne Agreement did not solve the sugar problem, although surplus stocks in the signatory countries were sharply reduced between 1931 and 1935. While member nations reduced their production 40 percent, the non-member nations, which included the major consuming areas of the world, increased theirs by 15 percent. The Agreement was terminated in 1935.

1/ The seven original signatures were Cuba, Java, Germany, Czechoslovakia, Belgium, Poland, and Hungary. They were later joined by Peru and Yugoslavia.

The International Sugar Agreement of 1937

By 1937 the world sugar market was still depressed, but national policies in the United States and United Kingdom had clarified sufficiently to permit them to participate in an international sugar agreement. The governments of both countries had finally come to the realization that sugar production could not profitably be expanded indefinitely behind tariff barriers, and limitations on such expansion had been incorporated in legislation. The United States had enacted the Jones-Costigan Act and the Sugar Act of 1937 (due to expire in 1942). The United Kingdom under the British Sugar Industry (Reorganization) Act, 1936, set a ceiling on the volume of subsidized output and was ready to apply quotas to sugar entries from her Dominions and Colonial areas.

The International Agreement of 1937 1/ recognized the importance of participation by the major consuming countries as well as by the exporting countries.

The twenty-one signatories represented about 85 percent of the world's sugar consumption. Importing nations agreed to limit expansion of their domestic industries, while exporters agreed to hold their production to levels consistent with export quotas and carry-over stocks. While no specific price criteria were included, the International Sugar Council was authorized to adjust quotas to provide "an adequate supply of sugar on the world market at a reasonable price not to exceed the cost of production, including a reasonable profit, of efficient producers."

In the year following the Agreement, world production and consumption came into approximate balance; and although with the outbreak of World War II all quotas and restrictions on production were removed, the International Sugar Council has continued to function in a stand-by capacity to keep abreast of the world statistical situation in sugar and to facilitate the negotiation of a new Sugar Agreement.

The control provisions of the 1937 Agreement were in effect for too short a period to provide a test of their effectiveness, especially as they were operative only during a time when war preparations were stimulating world economic activity.

1/ Signed on May 6, 1937, at London. The signatories were: The Union of South Africa, the Commonwealth of Australia, Brazil, Belgium, The United Kingdom of Great Britain and Northern Ireland, China, The Republic of Cuba, Czechoslovakia, The Dominican Republic, France, Germany, Haiti, Hungary, India, The Netherlands, Peru, Poland, Portugal, The Union of Soviet Socialist Republics, the United States of America.